The Investors' Primer

THE INVESTOR'S PRIMER

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PREFACE.

There has long been a demand for a concise handbook which would give, in simple, understandable language, definitions of all the important terms and phrases employed in the investment and banking business. This little book represents an effort to in some measure supply this demand.

The book is really in two parts, the first part covering the general definitions of finance; the second giving more specific information regarding investment securities and the manner in which they are distributed to the public.

Introduction

THE investment of money is a business, just as the manufacture of shoes and the selling of food are businesses. But modern investing is even more than a business; it is influenced by and covers all businesses, all enterprises, all industry. In the early days of the Republic, the situation was, of course, somewhat different. At that time there was but little wealth and therefore little capital. Population was sparse, privation was great, men were absorbed in holding body and soul together, in feeding and clothing themselves, rather than in seeking for luxuries. There was no leisure class in those days and, as a consequence, no investing class. For then, an investing class could only be drawn from a leisure class. Nowadays investors are made up from all classes, and a vast amount of money which is invested in stocks and bonds and other enterprises is the money of the poor, of the moderately-well-to-do and of the industrious, as well as of the merely rich and the non-industrious or idle. One hundred years

ago only a very few could spare anything beyond their daily needs for investment in outside things. If they accumulated any wealth at all above their cost of living, it was used to buy or build a home, raise and educate a family or develop a small undertaking of their own. And, indeed, even though they acquired or possessed surplus wealth, practically the only forms of investment accessible were government securities or loans upon realty. There were no railroads, no trolley companies, no manufacturing enterprises of large size, or other fields for the productive employment of surplus capital. Even savings banks were practically unknown, and mining or exploration enterprises were largely of that uncertain, speculative nature that only the boldest and least timorous would look favorably upon.

But to-day the field of investment covers enterprises of every conceivable nature. Manufacturing corporations covering every thinkable need or luxury of the human being, distributing concerns selling every kind and class of necessity and luxury in the line of food, clothing, or what not, are all embraced in the investment field. Transportation methods of every kind from the stage-coach to the powerful locomotive, from the coal cart to the automobile, are operated with the capi-

tal of investors. Our department stores, our restaurants, our candy manufacturers, our theaters, our magazines and newspapers, the advertisements in the street cars, many of the metropolitan barber shops, the boot-black stands, and the news stands and book stores are operated by corporations, the capital in which is largely derived from investors. Not a large building is now put up in New York City but that an enormous corporation puts in the foundation; another corporation erects the superstructure and still others put on the finishing touches, all being concerns whose shares or bonds are owned by investors in all parts of the country. The hats we wear, the umbrellas we carry, the suit of clothes, the shoes, the socks, the shave we had this morning, or the ham we ate this noon—all these were shaped and produced to a large extent by the money of investors. When we realize that one corporation in this country boasts of over eighty thousand stockholders, and that many others are known to have over thirty thousand, we begin to get a slight idea of the magnitude of the investment field.

But this is not all. Not only is all modern business essentially the investors' field, but all the obligations of municipalities, of counties, cities and States are held by investors.

The governments themselves build up their navies and armies, carry on wars and develop public works with the money of investors. A case in point is our own Panama Canal. And not only do the investors of one country supply funds for their own activities, but they also supply much for the activities of other nations. Thus, when the American is investing money in a Mexican gold mine or in Japanese Government bonds, he is supplying investment funds to undertakings in those countries, and when the Englishman or Frenchman buys our railroad or industrial bonds or stocks, he is supplying investment capital for undertakings in our own country. The investors' field in this country would seem, therefore, to be limited only by the wealth of the country itself.

But what about the methods for investing money? Where does the money come from? Does it all come into Wall Street and the other financial centers, or does it flow directly from the pockets of the investors into the undertaking or enterprise itself?

Speaking broadly, there are two methods by which money is invested in any given enterprise. These are, direct and indirect. The person who places money directly, or through a broker or banker, in a specific enterprise or undertaking is a direct investor. He person-

ally becomes the stock or bond-holder in a corporation of his own choosing. But the man who deposits his money in a savings bank, insurance, or trust company or State or National bank, is an indirect investor. His money goes into an investment of some sort where it earns the interest which he receives and possibly a little more. In the former case, he sees his money at work; it stays presumably in the place where he puts it. In the latter case, he delegates the matter of actual investment to another—to the bank—which acts in the capacity of a trustee, and invests his money for him. And in both cases, the money may easily be invested in the same enterprise. Thus, in the latter case, he may place his money in a savings bank, and the bank may then invest it in New York Central Railroad 3½% bonds. In the former case he may himself, through an investment banker, purchase New York Central Railroad 3½% bonds. His money is in the same enterprise in both instances, the chief difference being that, in one case, he knows it; in the other, he does not.

This brief sketch of the investment field which obtains in this country to-day will give a rough idea of the breadth of the subject under discussion. And, in taking this broad view, we must bear the fact in mind that this

is not a stationary condition, for the American investment field is broadening and intensifying every day. It is not only growing in size and volume, but also in density. We, even more, I think, than most other modern nations, are going through a quiet, steady, but most remarkable evolution in the methods of wealth production and distribution. Fifteen years ago we were called "a nation of investors," but this appellation is far more appropriate to-day than it was then. The changes during the past ten years in this respect are in no way better illustrated than in the remarkable expansion of Wall Street. The mere growth of stock exchange business, while great in itself, is not a complete guide in this matter. We must necessarily take into consideration the vast expansion of investment business outside of the stock exchange floor.

While there are no accurate figures for demonstration, the acknowledged fact that a hundred first-class investment houses exist in the Street to-day where ten existed in 1896 is evidence enough in itself that the expansion has been great. In 1896 or 1897, if an investment bond house bought or sold $500,000 or $1,000,000 of bonds in one block or at one time, the fact was heralded far and wide as a notable event; nowadays such transactions and much

larger ones are constantly going through and create no comment whatever. In those days, if a bond or investment firm made half a million dollars in any one year, it was regarded as a most remarkable showing, but at the present time, dozens of houses can be pointed out in the Street which are making this or a better showing every year. To-day, single firms buy entire issues of bonds or stocks sometimes running into the tens of millions in amount; ten years ago this was unheard of, and usually a "million dollar loan" was regarded as of such magnitude that it required a syndicate of half a dozen or more concerns to underwrite it. In the field of stock speculation and trading, in those days, a business of 15,000 shares in one day was regarded as very large. To-day many firms do 50,000 to 100,000 shares per day right along in normal times. Then, a firm carrying on margin $5,000,000 worth of stock was a large firm; to-day many are constantly carrying from $30,000,000 to $40,000,000 worth. In the actual banking field the expansion has been equally great. Now many banks and trust companies in the city of New York can boast of deposits of $40,000,000 and over; in those days none could. And yet there are now several times the banking facilities in New York that there were in 1896.

While Wall Street is the main center of investment, it alone has not enjoyed all the expanding. Other cities, all over the land, can now boast of financial and investment centers of no mean extent. In most cases they have close alliances with the main center in New York, but they are all sharing in the general expansion of this particular phase of modern commercial advancement.

The fact should be consistently borne in mind that this great investment field is constantly being accelerated from several sources. Not only does it benefit by the steady growth of population and general development of the country, but it expands steadily because of the fact that it is becoming increasingly necessary to do things more and more on a large scale, and this tendency automatically involves the elimination of the smaller producer and competitor, and forces a steadily expanding element into the field of investment. Even the busy workers of to-day, as well as the leisure classes and those who pursue the professions, find it profitable to place their surplus funds more and more into enterprises outside of their chosen environment. It is this tendency of modern civilization which has much to do with making the investor class of greater importance in all parts of the country.

PART I.

ACCOUNT AND RISK. The forms usually provided by brokers for the use of their customers when giving orders for purchases or sales of securities, bears the inscription, "Buy or sell for my account and risk." The meaning of this is that when an order as given is executed by the broker, it is done for the account and risk of the customer exclusively, and that the broker is simply acting as the agent in the matter and is therefore in no sense liable himself, but holds the customer wholly responsible for the transaction.

ACCRUED DIVIDEND. The amount or proportion of a regular dividend not yet payable that has accumulated at a given time after the date of payment of the preceding regular dividend. For instance, if a dividend on a stock at the rate of 6% per annum is payable semi-annually January and July 1st, the amount of acrrued dividend on a given date, such as April 1st, will be 1½%. Cumulative

dividends which have not been paid when due, but which have accumulated, are sometimes called accrued dividends, but the correct term for such is "accumulated dividends." A cumulative dividend is an entirely different matter.

ACCRUED INTEREST. This is the amount of interest on a bond or debenture stock not yet payable, but which has accrued over a given period of time subsequent to the last regular payment. For instance, if the interest on a 4% bond is payable semi-annually January and July 1, the amount of accrued interest on the bond on April 1st would be exactly 1%, which on a $1,000 bond would amount to $10. Many bonds are quoted "with accrued interest" and sold on this basis. This is particularly true of unlisted issues, municipal bonds, etc. Most of the issues quoted on the stock exchanges are sold "flat"; that is, the accrued interest is not separately figured but is included in the price. To bring the distinction out concretely between a price quoted with accrued interest, and a price quoted "flat" the following illustration is submitted: If a 4% bond is selling at 90 and accrued interest on January 1st, the total cost of the bond will be exactly $900; but if on April

1st it is still quoted at 90 and accrued interest, the total cost of the bond will be not $900 but $910, the $10 representing the accrued interest over the preceding three months. If, however, the bond is quoted "flat" the price on April 1st, other things being equal, would be given as 91. It will be seen, therefore, that the matter of accrued interest directly affects the "flat" price but does not affect the "and interest" price. As very large transactions are made daily in bonds on an accrued interest basis, it is necessary to do a great deal of figuring from day to day on the amounts of accrued interest when making purchases and sales. To facilitate this, most bankers and brokers make use of pocket bond interest tables, which contain the figures showing the amounts of accrued interest on $1,000 bonds for every day from one day to six months, at the various rates of interest from 2% up to 8%.

ACCUMULATED DIVIDENDS. This term is properly used to describe cumulative dividends which for one reason or another have not been paid as they fell due. For instance, in many corporations, particularly industrials, there are issues of preferred stocks on which the dividend charge is so heavy that the corpo-

ration is not able to earn and meet the payments. The amounts of dividends, therefore, have accumulated, and, theoretically at least. must be paid off some day. Usually when dividends of this kind or portions of dividends have accumulated over a series of years and it has been pretty well demonstrated that there is little prospect of the corporation being able ever to make good the back payments, some plan of compromise is then submitted to the stockholders whereby the accumulations are paid, possibly in securities of some kind, and then the rate of dividends is scaled down for the future. It is not always difficult for the corporation to make a readjustment of this kind, as the cumulative clause in a stock is really not of a great deal of value if the corporation cannot in some way earn sufficient money to pay the full dividend. In other words, the stockholder has no means of foreclosing on the property or bringing legal action if the past dividends are not paid.

ADJUSTMENT BOND. This term is used to describe a bond which has been issued for the purpose of in some way adjusting the finances of a company, usually at the time of a reorganization. For example, when the Atchison, Topeka & Santa Fe system was re-

organized in 1897, some compromise had to be made with the old preferred stockholders and the holders of the general mortgage bonds. It was necessary for the road to radically reduce its fixed charges, but at the same time the reorganization committee could not avoid giving the holders of a large proportion of the old securities something more tangible than a mere preferred stock. The holders were therefore given a second mortgage bond, which would be entitled to receive interest only in case the same had been earned, and in no case would the holders of the bond be able to foreclose before maturity in the event of the interest not being paid. The interest on this particular issue was to become accumulative after 5 years, but as far as any positive guarantee of interest being currently paid was concerned, the issue was simply in the same class as the ordinary accumulative preferred stock. It will thus be seen that this issue of bonds was in the nature of a compromise for the benefit of the holders of old securities, and it was therefore given the title of "adjustment bond." Several other large issues of adjustment bonds have since been created by other companies, but the Atchison "adjustments" are the most conspicuous example of this kind of security.

ALLOTMENT. A term used in connection with the amounts assigned to members or subscribers in underwriting syndicates. For example, it is generally understood when an underwriting syndicate is being formed and different concerns are subscribing for portions of the underwriting, that the managers of the syndicate have it in their power to allot to a given subscriber less than the amount applied for, provided the total subscription or underwriting exceeds the total amount offered for subscription. There have been many instances where an over-subscription of a stock or bond issue has been so great that the subscriber is finally allotted only a small proportion, sometimes only 10% of the amount for which he has subscribed. This fact of a tendency for over subscription has often, in the case of popular securities, had the result of inducing underwriters to sometimes subscribe for even greater amounts than they expected to get. In this way, they have been able to secure the amounts which they actually desired.

ARBITRAGE. The meaning of this expression is the buying and selling of the same thing in two different markets, as, for instance, New York and London, the purpose being to make a profit from the difference in the quo-

tations between the two markets. The term is used chiefly in reference to dealings in stocks and bonds, but is also used in dealings in exchange and in other commodities.

Arbitrage in stocks is based on the temporary differences in prices between the different markets for the same stock. For instance, when a stock is selling at a higher price in one market than in another, it is sold in the market where the higher price prevails and is bought in the market where the lower price prevails. The operator speculates on a return to the same price in both markets. When the equality in price has been restored he closes his transaction by buying where he sold and selling where he bought. The difference in price that existed, of course, represents his profit, unless the transaction has not been a successful one, in which case a loss may be reported.

To illustrate the method of arbitrage trading we will assume that a stock is selling in one market at 100 and in another at 98. It is then sold in the first market at 100 and bought on contract in the second market at 98. If the stock advances to 100 in the second market while it remains stationary in the first market a sale is then made in the second market and thus 2% is made on the transac-

tion there. The same amount of stock is then bought back in the first market at 100, and hence neither profit nor loss barring commissions, results in the transaction in the first market, the profit in the second market representing the entire net profit of the double transaction. Should the stock decline to 99 in the first market and advance to 99 in the second market the transaction can be closed up with a profit of 1% in each market or 2% in the two markets.

Because of the system of calculating values for American stocks on the London Stock Exchange, prices on the London Exchange are 2⅝% higher than the prices for the same stocks on the New York Stock Exchange when they are actually the equivalent of the prices on the New York Exchange. Hence, in arbitrage dealings, allowance has to be made for this difference in prices between London and New York, which is merely apparent and not actual. The figure of 2⅝% mentioned above is arrived at in the following manner: In dealings in American stocks on the London Stock Exchange four shillings is counted as one dollar. Four shillings being equal to 97 1-3 cents, the price of an American stock must be 2 2-3% (quotably 2⅝%) higher in London than in New York if the London price is to be equiva-

lent to (or at a parity with) the New York price. Not 2⅝% of the par value is to be added arbitrarily to the New York price, but 2⅝% of the New York price, whatever it may be, is to be added to the New York price to make an equivalent London price. Thus, for a stock selling at 50 in New York the equivalent price in London would be quotably 51⅜%. For a stock selling at 100 in New York the equivalent price in London would be 102⅝%. Conversely, for a stock selling at 100 in London the equivalent price in New York would be 97⅜%, and for a stock selling at 50 in London the equivalent price in New York would be 48⅝%.

The difference in equivalent prices between New York and London permits two kinds of operations in stocks that are dealt in in both markets. One operation is called a "spread" and the other is called a "back spread." See also definition of "spread" as used locally under its own heading.

In the "spread" as employed in arbitrage dealings there must be more than a normal difference in prices between London and New York. The stock is sold in London where the higher price prevails, and bought in New York where a lower price prevails. Then, when the equality in price is restored the transaction is

closed by buying in London and selling in New York. The difference in excess of the normal difference represents the profit in the transaction.

In the "back spread" there must be less than the normal difference in prices between New York and London. The stock is therefore bought in London where the nominal higher price prevails, and is sold in New York where the nominal lower price prevails. The transaction is finally closed when the equality in price has been restored by selling in London and buying in New York. The difference in price that existed less than the normal difference, represents the profit in the transaction.

A large arbitrage business in active stocks is carried on between London and New York by cable daily. By the clock London is five hours ahead of New York. At 10 a. m. in New York, when the New York Stock Exchange opens, it is 3 p. m. in London. The London Exchange opens at 11 a. m. and closes at 4 p. m., except on the last day of accounting, when it closes at 4.30 p. m. After the closing of the London Exchange, American stocks are still traded in in the Street. A good part of this street market represents arbitrage business with New York. Very little business is transacted in New York before the opening of the New York Exchange,

but orders are sent to London for execution. The London curb brokers remain active as long as there is business to keep them, continuing usually as late as 5.30 or 6 o'clock.

There is also a business in arbitrages carried on in grain, cotton, coffee and so forth, between different markets in one country or between different countries, just the same as in stocks between New York and London.

ASSENTED STOCKS OR BONDS. A term which describes securities, deposited under an agreement by which the owners assent to some change in the status of the securities. Many reorganizations of properties are carried through without foreclosure or other legal process, the owners of the securities assenting to some change in the status of their stocks or bonds such as an exchange for new securities, with possibly less principal or interest. See also Reorganization.

ASSESSMENT. An assessment on a security is a demand or call from a company or its management upon stockholders to pay into the treasury a specified sum of money on each share of the security which they may hold. There are many kinds of assessments, the most common in Wall Street being that which re-

sults as part of a plan of reorganization by means of which funds are secured for the discharge of debts and for working capital. While most stocks of railroads and other large corporations are, in a legal sense, non-assessable yet in a reorganization where conditions have made it necessary for the different security-holders to make concessions and sacrifices, assessments are often paid. These assessments are, of course, in a sense voluntary, and are agreed to by the stockholder and paid in order to preserve the property with the hope that the reorganization will result in ultimately adding value enough to the securities to repay the stockholder for the expense of the assessment. Often the stockholder has no alternative except to pay the assessment. If he does not pay it, usually an underwriting syndicate stands ready to take his stock at a current market price (which is often a merely nominal one) and pay the assessment itself. This results in the former stockholder sacrificing practically his entire interest and he is then, in a sense, "frozen out." Any future benefit from the reorganization is, of course, derived by the payer of the assessment, who naturally takes the chance of the future success of the company and is therefore entitled to its future profits.

ASSIGNED IN BLANK. The ordinary stock certificate has on its back a printed form of assignment, whereby the owner of the certificate can endorse the same and thus make it a good delivery in selling it or passing it on to another party. By signing this form in blank he makes a legal and formal assignment of the stock to any purchaser who, of course, can fill in his own name in the blank provided for the purpose and then have it transferred on the books of the company in the usual way, receiving a new certificate in his own name. The New York Stock Exchange rules provide that any stock certificate assigned in blank by the owner must carry a witness to the signature, and also a formal guarantee of the signature by some stock exchange house in good standing. This, of course, is to guard against forgeries, errors, etc.

AVERAGING. This is a speculative term describing a method of purchases or sales of stock, which speculators often pursue in advancing or declining markets, for the purpose of improving their position regarding the average cost of certain purchases or sales of stock. For instance, should a man be dealing in New York Central stock on a speculative basis, he might begin by purchasing 100 shares at 110.

Should the price then decline to 105, his transaction up to that date would show him a loss of $500. He might then purchase another 100 shares at 105, and he would thus be carrying 200 shares at an average cost of 107½. Should the price then advance to above 107½ his entire account would show no loss, and he could close out the transaction 2½ points below the cost of the first hundred shares and yet not lose any money. The practice of averaging is carried on sometimes on a much larger scale. Investors or speculators will often put in orders to make purchases on a "scale down," buying at every point or two, and in a declining market where a given stock may drop 25 points, 100 shares may have been purchased at every point down. Each purchase naturally brings the average cost of the entire account down to a lower figure.

The method of averaging is also employed in the sales of stocks by investors and speculators in the same way, both in selling stocks for long account and for short account.

BALANCE OF TRADE. The difference in money value between sales and purchases. In foreign trade, the difference in money value between exports and imports. As commonly used the term signifies the balance or differ-

ence in favor of a country; as, for instance, the United States as against the rest of the world; or in favor of the rest of the world and against that country. When exports exceed imports over a given period the balance of trade is said to be in favor of the country, and vice versa.

BANKING. The banking business is almost as old as civilization itself. Money lenders are mentioned many times in the Bible and in all other ancient literature, but banking in its modern sense as understood in the civilized countries of the world to-day is more of an evolution that has resulted as the natural outgrowth of modern industrial development and commercial conditions. Modern banking may be said to have begun, therefore, within the past three hundred years. Prior to that time each man was, in a large degree, the individual defender and protector of his own property. For instance, three centuries ago it was not safe to venture out after nightfall in the streets of London unless properly armed or in company, and the carrying of valuables of any kind was particularly hazardous. Goldsmiths, who in those days necessarily had to keep on hand large stocks of the precious metals, took great precautions for the safe keeping of property of this kind and people gradually acquired

the habit of depositing money with them, paying something for the privilege in order to receive the accompanying protection. In the course of time the goldsmiths learned from experience that many people who had so deposited money did not require it at once, and they thus began to lend out a certain percentage of their surplus on their own authority. Furthermore, it was found that if a man had to discharge a debt it was often more convenient for him to give his creditor an order for the money on deposit with the goldsmith than to go in person and carry away the gold and deliver it, and thus impose upon the creditor the necessity of returning the gold for deposit in his own name, and many times in the same place. This situation developed the system of a transfer of credits by means of checks. This method was not only safer but much more convenient than the earlier method of delivering the actual coin or bullion. In making loans, likewise, the goldsmith now became the banker and learned to merely put the loan on his books as a credit to the borrower, against which the latter could draw his order or check precisely as if he had deposited the actual money; or the goldsmith issued his own note or promise to pay to the borrower, the latter passed it on in payment of debts and it became

a circulating medium wherever the credit of the goldsmith was good.

Modern banking has evolved to its present state from this beginning. The chief function of the modern bank is to receive on deposit and make legitimate use of the money of its customers. It makes this money and its own paid up capital the basis of loans, on which it charges interest in accordance with the laws under which it is chartered. While these loans may take the form of actual money, they are, as a rule, merely credits against which the borrower is privileged to draw. Such loans are entered on the books of banks as deposits. In actual experience the loans and deposits so nearly counterbalance each other that only a small percentage of actual money is required to transact the larger affairs of business. It is only in retail transactions, in the payment of employees and in the smaller daily affairs of life that actual money is usually used. For all other business the transfer of credits by means of bank checks and bills of exchange is the almost universal rule. In brief, the modern bank has become the principal mechanism of exchange. To what a remarkable extent bank checks have supplemented or taken the place of actual money as a medium of exchange in modern business, thus making possible the

wonderful commercial and industrial activity of the present day, can be best realized by studying the figures of the operations of the various clearing houses of this and other countries and the relation which the actual money in the vaults of the banks bears to the total transactions recorded.

In addition to its functions as depositories for money and the negotiation of credits, the modern bank exercises the function of note-issuing. In the United States, under the national banking law, any national bank may issue notes up to the amount of its paid in capital stock upon depositing with the United States Treasurer, government bonds of the United States equal in par value to the amount of circulating notes so issued. State banks are also authorized to issue notes, but the Federal tax of 10% on their circulation acts as an effective prohibition on the exercise of this right.

While the business of banking is embraced within the above general scope, yet the term banker is very broadly used, particularly in the United States. Stock brokers, investment dealers, dealers in exchange and commercial paper, money lenders, and others are accustomed to call themselves bankers. Strictly speaking these are inaccurate uses of the term, although it is now generally acknowledged

that in modern usage the term banker must be understood to carry a broader meaning than was formerly the case.

BANK OF ENGLAND. The Bank of England, which is the largest and most important monetary institution in the world, was incorporated in 1694. It is the custodian of the public monies of Great Britain and the manager of the public debt. Its official title is "The Governor and Company of the Bank of England." It conducts the banking business of the British government; it receives the revenue of the government and makes all disbursements for it; and it also issues exchequer and treasury bills and advances money to the government. It is also the central bank of the City of London. That is, the other banks keep on their own premises only enough of their deposits for the requirements of their business, and deposit the remainder with the Bank of England. Thus, the bank is not only the financial institution of the British Government, but also of the other London banks and of the whole of the London money market.

BANK OF ENGLAND NOTE. The circulating note or money issued by the Bank of England performs the chief note-issuing func-

tion in the United Kingdom. The bank is permitted to issue a certain amount of notes upon government securities, and it has the privilege of issuing, also on government securities, an amount equal to two-thirds of the issues of all other banks in England and Wales when the latter go out of existence or surrender their circulation. In addition, the Bank of England may issue notes to any further amount it sees fit by providing and setting aside an equal amount of gold coin or bullion.

In times of panic the bank is allowed by parliament to increase the number of notes that it may issue against securities. This is accomplished by the suspension of the "Bank Act," which limits the amount of the bank's circulation of notes backed only by securities. The Bank Act was last suspended in 1866.

The Bank of England's notes are legal tender in England and Wales, but are not legal tender in payments made by the bank itself. The holders of the bank notes are entitled to demand gold for them on presentation at the bank. The notes of other English, Irish and Scotch banks are not legal tender, with the exception of the notes of the Bank of Ireland, which are legal tender in Ireland only. All the notes, however, constitute an important circulating medium. Ultimately the Bank of Eng-

land will possess the monopoly of note issue in England and Wales.

The lowest denomination of a Bank of England note is £5 and the largest £1,000.

BANK OF ENGLAND RATE. This is the proper title for the minimum rate of discount of the Bank of England. The minimum rate is nominally the rate at which the Bank of England itself will discount the best three months bills. In short, it is the official standard of discount. The rate has a direct relation to the movement of gold to and from London. For instance, the raising of the rate raises the value of money and is calculated to attract gold from foreign centres where the value of money is, for the time being at least, less. The directors of the bank often insure the effectiveness of the rate by borrowing in the money market, thus denuding it of supplies. As the raising of the bank's rate raises the value of money, so the lowering of it lowers the value of money.

BANK STATEMENT. In New York City a bank statement is issued from the New York Clearing House on each Saturday. The weekly statement is the collective showing made by the banks belonging to the Clearing House As-

sociation. This consolidated bank statement shows the average deposits, loans, specie, legal tenders, circulation, reserve and surplus reserve for the week ending with and including Friday.

The deposits include the credit balances of persons and concerns, balances to the credit of other banks, and all other money and credits subject to withdrawal. The item loans, includes money loaned and paper bought, such as promissory drafts, etc. Specie includes gold and silver coin and also gold and silver certificates, which are redeemable in gold or silver. Legal tenders means United States notes (greenbacks) and treasury notes (notes issued for silver bullion, purchased under the so-called Sherman act). Circulation means the notes issued by national banks which are secured by government bonds, deposited with the United States Treasurer. A bank cannot count circulation in its reserve, and whether it is its own circulation or the circulation of some other bank makes no difference. Reserve means the amount of specie and legal tenders held. Surplus reserve is the amount of specie and legal tenders held in excess of legal requirement. For instance, a national bank in New York City must, by law, maintain a reserve equal to 25% of its profits; a State bank must by law

maintain a reserve of 15%. In compiling a bank statement a reserve of 25% is allowed or figured for State banks as well as national banks.. The bank statement is said to be made up on rising averages when the items in it have been increasing in amount during the week; or the statement is said to be made up on falling averages when the items in it have been decreasing in amount during the week. The bank statement is favorable or good when it shows that the position of the banks has been strengthened, as by an increase in the surplus reserve through an increase in the cash holdings rather than by a decrease in the deposits, which latter is often affected by the calling of loans. As money loaned is largely credited to borrowers on their deposit accounts and increases the total deposits of the banks, so the payment of loans by borrowers takes from and decreases deposits. It will thus be seen that the calling and payment of loans does not increase cash holdings, but merely changes balances in individual accounts. A reduction in deposits reduces the amount of cash required to be held as legal reserve, and correspondingly expands the surplus reserve.

The bank statement is understood to be unfavorable when the position of the banks has been weakened, as by a decrease in the surplus

reserve through a decrease in the cash holdings rather than by an increase in the deposits, which often is effected by an expansion in the loans, thus correspondingly expanding the deposits and increasing the amount of cash required to be held as a legal reserve. The bank statement may be said to be favorable, however, if an increase in loans is reported when the banks have a large surplus reserve. Also, it may be said to be unfavorable when money is idly accumulating in the banks and deposits are increasing, not as a result of increasing loans, but in the absence of a borrowing demand for money.

In addition to the statement issued by the clearing house banks on Saturday there is also issued on Monday what is known as the non-member bank statement, which shows the condition of the banks which are not members of the clearing house, but which clear through members of that institution. The non-member statement shows the loans, discounts, investments, specie, legal tender notes and bank notes, deposits with clearing house agents, deposits with other New York City banks and trust companies, net deposits, circulation, capital stock and net profits.

BEAR. A bear in Wall Street is a specula-

tor who works to secure or who believes in lower prices; in the stock market it is one who sells stock short, or advises the selling of stock short for the purpose of buying back at a lower price. A speculative dealer in grain, cotton or other commodities may be a bear as well as a speculator in stocks. For methods of operation pursued by bears see "Selling Short."

BILL OF EXCHANGE. A written order or request from one person to another for the payment of money to a third, the amount to be charged to the issuer of the bill. There is practically no difference between a bill of exchange and a draft. The term, however, is commonly applied to an order for money payable in a foreign country, whereas the term draft is applied to an order payable within the country of its origin.

Bills of exchange constitute a most important circulating medium. The wholesale transactions of the world between countries are affected by bills of exchange, which are not limited like bank notes to the country of their origin. When commercial bills of exchange are accompanied by bills of lading or warehouse receipts, or by other documents, they are of a superior nature. They command a lower rate of discount, or in other words, bring a better

price than bills not secured. In a stringent money market they are saleable when other bills are refused. See also Foreign Exchange.

BLIND POOL. When several persons contribute capital to a pool for operating in stocks or bonds, either on the long or short side, and only the manager of the pool knows in what way the money is to be used, it is known as a blind pool. The purpose of such a pool is to insure secrecy. Speculative blind pools are not uncommon undertakings in Wall Street.

BONDS. A bond is a certificate of obligation usually issued by a corporation to pay money secured by mortgage or otherwise. It is usually an interest bearing certificate, and issued in denominations of $1,000. There are many kinds of bonds, some being issued by corporations, others by municipalities or governments, and still others by individuals.

The securities issued by governments are generally designated as bonds, rather than stocks. The United States government issues are nowadays known as bonds, although they were many years ago known as stocks. Some of the securities issued by New York City are still designated as stocks, but American mu-

nicipalities usually now designate their securities as bonds rather than stocks.

A coupon bond is one both interest and principal of which are payable to bearer. Such a bond carries with it a series of coupons, usually attached to the bond itself, which are clipped off on the respective interest periods and deposited with the banks for collection by the holder of the bond in the same manner as checks are deposited. A registered coupon bond is one which bears the name of the owner, and the principal can be paid to him only. The interest, however, is still payable to bearer. A straight registered bond is one bearing the name of the owner whose name is registered on the books of the company issuing the bond, and the interest payments are made by checks forwarded to the address of the owner.

A gold bond is one which is specifically payable, both principal and interest, in gold coin; a currency bond is one which is payable with any kind of money that is legal tender. A large bond is one with a denomination of $10,000. A small bond is one of a denomination of $500 or less.

Investment bonds are issued in various denominations and at all rates of interest from 3% up to 7%. There are at least two dozen different kinds of investment bonds, such as

the various railroad bond issues, public utility issues, industrial issues, bonds on mines and other enterprises, in addition to government or municipal securities. The types and classes of bonds are described throughout the pages of this book under their own titles or headings.

BOOKS CLOSE. This relates to the transfer books for stocks and registered bonds. Usually on an advertised date sometime prior to the payment of a dividend on a stock the transfer books close and the stockholders of record on that day receive the dividend when it is paid. On and after the day the stock books close the stock sells "ex dividend" or without the dividend. The transfer books are also usually closed on an advertised day prior to an election or other stockholders' meeting, and only the stockholders of record at the closing of the books can vote at that election or meeting. A contract in a stock falling due during the regular closing of the transfer books of the company is settled at maturity by the delivery of a certificate and power of attorney; on a contract which is at the option of the buyer or of the seller, notice for settlement may be given as if the books were open. In case the books are closed for a dividend, the person entitled to the latter receives a due bill for it.

BOOKS OPENED. When the transfer books of the company are opened the ownership of a security can be changed on the record, and at no other time. In other words, while certificates can change hands at any time, they cannot be formally transferred from one holder to another during the period between the closing or the opening of the transfer books of the corporation. See above under Books Close.

BOOK VALUE. The book value of a stock is based on the net profits or deficit of the corporation which has issued it. The term book value is more frequently used in relation to bank stocks than to the stocks of any other particular kind of corporation. To ascertain the book value of any particular bank stock the following process is adopted: If the official statement of a bank shows nets profits (surplus and undivided profits) equal to say 75% on the stock outstanding, then the book value of the stock is the original amount of the stock, 100%, plus the equivalent in net profits, 75%, or 175. If, on the other hand, the bank shows no net profits, but instead shows a deficit equal to say 10% on the stock, the book value of the stock would be only 90. The book value of stocks of other corporations is ascertained in

the same manner, but is not nearly so simple for the reason that it is not usually easy to ascertain the uniform facts regarding assets, liabilities, surplus, and so forth, and when the information is obtainable it is usually too complex and involved for uniform and intelligent use.

BORROWING AND LENDING STOCKS. When a speculator sells stock short or gives his broker an order to sell stock short, the stock must be borrowed to make delivery to the purchaser. This is usually a simple matter on the exchanges, as there are generally plenty of holders who are long of stock and possess certificates, who are just as anxious to loan it as the one who has sold the certificate short is anxious to borrow it. The lender of stock on the exchanges receives from the borrower the market value of it in money, but except when the stock is loaning "flat" or at a premium, the lender of the stock pays to the borrower interest on the money paid for the stock by the borrower. On the New York Stock Exchange, brokers who have stocks to borrow and to lend assemble immediately after the close of business on the Exchange, and those who need stocks borrow the amounts necessary to make deliveries the next day. Those who neglect to

borrow at this time must do so the next morning or before the delivery hour at 2.15 p. m. The same rules govern the receipt and delivery of stocks borrowed and loaned as govern stocks bought and sold. In returning borrowed stock the borrower must notify the lender before 1 o'clock on the day of delivery; the lender in calling or demanding the return of stock is required to do likewise.

When a stock is loaned "flat," the owner is relieved from the cost of carrying the stock. If loaned at a premium he is still better off, for the premium is clear gain. If a stock that has been borrowed advances in market price, the lender may require the borrower to pay to him the difference between the price at which the stock was loaned and the new higher price. On the other hand, if the stock declines in price, the borrower may require the lender to return to him the difference between the price at which the stock was borrowed and the new lower price.

When a corner is being worked in a stock, it is the practice of those engineering it, freely to loan the stock in order to encourage the creation of a short interest in it. When this short interest has become large enough, or in other words, when the stock has become sufficiently

oversold, a demand for the return of the stock brings the corner to a culmination.

An apparent borrowing demand for stocks is sometimes created by the efforts of money lenders to obtain higher interest on their money than is obtainable in lending it in the money market. If the lending rate for a particular stock is 6% when money is loaning at 4½% in the money market, the money lenders will borrow the stock in order to obtain the extra interest.

BUCKETING. As distinguished from the manner in which a bucket shop operates (see Bucket Shop), bucketing of stocks consists in sales by a broker for his own account and risk, against a customer's purchase or purchases by the brokers, against customer's sales. The purpose of the broker is sometimes to avoid the employment of money in carrying stocks, but more often it is to speculate against his customer's trades. In either case the broker wins if his customers lose or he loses if his customers win. For example, if the customer buys 100 shares of stock at 120 the broker sells 100 shares at the same price. A cross trade is thus made by the broker; the transactions balance and the broker does not have to pay out the money representing the cost of the stock

purchased for the customer. If the customer has put up 20% margin, the broker has the use of that entire margin for other purposes. If the stock goes down to 108 and the customer sells while the broker buys, the transactions again balance, and the customer loses 2% which the broker gains. On the other hand, if the stock goes up to 112 and the customer sells while the broker buys, the customer makes 2%, which the broker loses. The broker, however, reduces his loss by the extent of the commission which he receives from his customer. If the customer loses and the broker wins in the above illustration, the broker's gain is really 2¼% instead of 2%, while if he loses and the customer wins his loss is actually only 1¾%.

There are cases of frequent occurrence where some customers of a broker have bought while others have sold a given stock on the same day and at about the same price. If more has been bought than has been sold the broker will sell enough to effect a balance; if more has been sold than has been bought the broker will buy enough to effect a balance.

BUCKET SHOP. A bucket shop is a place where bets are made on regular exchange quotations. No actual transactions take place.

The margin is put up by the customer and a commission is charged for buying and selling the same as on an exchange. When the quotation shows a profit to the customer he is privileged to demand the profit; when the limit of the customer's margin has been reached the customer has lost his bet and the transaction is closed. There are many large as well as small bucket shops in existence in the cities of the United States, and an enormous amount of trading is done in them. Inasmuch as more than 80% of the ordinary speculators fail to make money in the long run, it will be seen that the chances of money being made by the bucket shop are as five to one in comparison with the chances of the customer. In ordinary times, therefore, the bucket shop is almost sure to make money. It is only in the times of great bull movements, when for short periods the public in the market cannot help but make money in spite of their mistakes, that the bucket shop is apt to be on the losing side. At such times the bucket shop usually closes its doors, for the time being, before it has undergone very heavy losses. It is unnecessary to say that bucket shops are illegal, and from time to time, as charges are proven against them, they are closed up by the civil authorities.

BULL. This is the title usually given to a speculator in Wall Street whose attitude in relation to future prices is optimistic. That is, he believes in higher prices and works to secure them. A bull is therefore anyone who buys or favors buying stocks, grain, cotton or any other speculative commodity in the expectation of selling it at a higher price. See also Bear.

BUYERS' OPTION. In securities bought on the buyers' option the buyer may demand delivery of the stock on any day within the time specified on one day's notice to the seller. The buyer, unless the contract is "flat," pays the seller interest at the legal rate on the price of the stock up to the day of delivery. No contract or buyers' or sellers' option for less than four days, or for more than 60 days, can be entered into on the New York Stock Exchange.

CALL. A call on a stock or bond is a contract or written agreement binding the issuer to deliver to the holder the security named in the agreement within a specified time at a particular price, if the holder shall so demand. For example, A signs a promise to deliver 100 shares of a given stock to B at 110 at any time

within 60 days if B makes a demand for it. A sells this privilege to B for, we will say, $200. If, within the 60 days, the stock rises in price so that B can sell it at a profit above the cost of the privilege and commissions for selling, B then sells the hundred shares and calls on A to make the delivery of the certificate to him. Naturally the stock must go above 112⅛ before there is any profit in it for B. If the stock declines or does not go above 112⅛, B does not call for it and A makes the $200 on his risk, B losing just this amount. See also under Privilege. See also Put.

CALL LOAN. A call loan is a loan which is payable on call or demand. In Wall Street a very large amount of money is loaned on call by the banks to the brokers, the latter in all cases supplying collateral to cover the loan. By the New York Stock Exchange rules a demand for the payment of a call loan must be made before 1 p. m. on any given day and the payment must be made at or before 2.15 p. m. the same day. Also notice must be given to the loaner of intention to pay a call loan before 1 o'clock and the payment must be made by or before 2.15 o'clock.

CALLED BOND. A called bond is one which carries a clause giving the company is-

suing the bond the right to redeem the principal at a certain figure and at a certain time. Said right having been exercised, interest on such a bond usually ceases after the bond is called.

CAR MILES. A railroad term which signifies the number of miles traversed within a given time by all the cars on a railroad. The number of miles traveled by all cars, divided by the number of cars, shows the average number of miles traveled by each car. Most railroad reports give these figures when submitting statements of operations and earnings to their stockholders.

CHARTER. The charter or certificate of incorporation of a company is the authority conferred upon it by act of legislature which allows it to do business along certain lines as specified in the charter, which usually defines the general purposes and limits the privileges of the corporation.

CLOSE CORPORATION. An incorporated company, the stock of which is held by the managers or a very limited number of persons and is not in the hands of the public, is usually known as a close corporation. It is

sometimes assumed that only small companies carrying on limited kinds of business as successors to former partnerships in many cases are close corporations. This idea, however, is quite erroneous, as there are a good many corporations, the capitalization of which runs into the millions, which are in every essential respect close corporations. Usually in a close corporation there is an agreement or understanding among the few stockholders whereby each is prohibited from disposing of or selling his interest without the consent of the others.

COMMERCIAL PAPER As generally understood, commercial paper means acceptances and promissory notes. Acceptances are drafts or bills of exchange which have been accepted. In large cities like New York there is a great deal of business done at all times in the buying and selling of commercial paper. Individual dealers buy from makers at one rate of discount and sell to banks and other dealers at a lower rate. Good commercial paper represents a high class of investment.

COMMON STOCK. Common stock is distinguished from preferred stock in that it has no preference as to dividends or assets. It is sometimes called general or ordinary stock.

When a corporation has an issue of preferred stock it is, of course, necessary to give the ordinary stock the title of common to distinguish it from the preferred. If, however, there is no issue of preferred or other stock outstanding, then the ordinary stock is not referred to as "common" but is simply known as plain capital stock. Sometimes there are, however, different kinds of common or ordinary stock, this being particularly true of some English issues. In such cases, a portion of the issue may be called deferred, for the reason that it may receive no dividend until a prior portion has received a dividend at a fixed rate. Often it is the custom to designate a portion of the issue as A stock and a portion as B stock to distinguish the two classes. This employment of A and B is also often used in connection with different classes of preferred stock. See Preferred Stock.

CONSOL. This term is really an abbreviation or contraction of the word consolidated. In England, however, it is specifically used in connection with the funded debt of Great Britain. The debt of this country is in the form of stock which represents a consolidation of various loans, and is therefore commonly known in modern times as English Consols.

This public debt, representing nine different loans, was consolidated in 1851 into 3% stocks or, as Americans would say, bonds. In 1888 the 3%s were converted into 2¾%, and in 1903 the rate was reduced to 2½%. The official name of English consols is Consolidated Annuities.

CONTANGO. This is a London Stock Exchange term referring to the charge paid by a buyer for the privilege of continuing a contract to the next fortnightly settlement. For instance, ⅛ to ¼ contango means that the bull (who is long) pays to the jobber ¼% for the accommodation and the bear (who is short) receives from the jobber ⅛%. One-eighth contango to ⅛ back (abbreviation for "back wardation") means that the bull pays ⅛% and the bear pays ⅛%. One-sixteenth to even means that the bull pays 1-16% and the bear carries over "at even," or in other words, pays nothing. Contango day means the first day of settlement on the London Stock Exchange, when arrangements are made to continue bargains or contracts. The same as continuation day or making-up day.

CORNER. A corner in a stock is created by the purchase of all the floating or purchasable

supply of a given stock, after which the price can be advanced by the operators of the corner at will. Speculators who are short of the stock and are unable to buy or borrow to make delivery to buyers, or to return stock which they have borrowed, are generally said to be "squeezed." In other words, they must settle with the buyers at the buyers' terms. Corners are created in grain, cotton, coffee and other commodities as well as in stocks.

COUPON BOND. A coupon bond is a bond which is payable to bearer without registration of the owner's name, and carries a coupon covering the interest on the bonds, which is clipped at each interest period and deposited for collection, the same as a check, or presented for payment at the office of the corporation issuing the bond or the corporation's agent. The great majority of bonds issued by steam railroads and other corporations for sale to investors are coupon bonds. Coupon bonds are much more available for speculative dealings and for selling generally. While they are, of course, no better secured and intrinsically worth no more than registered bonds, yet they usually are quoted at a fractionally higher price than the latter, for the simple reason that a change in ownership involves no formal trans-

fer beyond the mere delivery of the bond itself. In many cases coupon bonds are convertible at the option of the holder into registered bonds, and in some instances the registered bond can be converted back at will of the owner into a coupon bond. This is not, however, true in all cases. Many coupon bonds can be registered as to principal but not as to interest.

CUMULATIVE DIVIDENDS. This term carries the same meaning as accumulative dividends. If a dividend on a stock is accumulative it implies that all back dividends must be paid in full before current dividends can be paid. In other words, a stock on which the dividends are not cumulative can omit to pay its dividend when the management sees fit and in another year begin to pay a current dividend again without regard to the period which has gone by during which no dividend has been paid. On the other hand, a cumulative stock must sooner or later pay up all back dividends. At least this is the theory, although naturally if a company does not earn the money to make the payments it does not pay them, and the back dividends simply accrue from year to year on the stock. See also accumulative dividends.

CURRENT ASSETS. This term, as used in connection with the balance sheet of a railroad or other corporation, cover the so-called shifting or changeable assets as distinguished from the capital assets. In the case of the steam railroad, current assets usually include cash on hand, loans and bills receivable, accounts receivable, amounts due from other companies and individuals, amounts due from companies' agents, advances to other companies, etc. The capital assets as distinguished from the current include cost of road and equipment, permanent investments, etc.

CURRENT LIABILITIES. Current liabilities as distinguished from capital liabilities of a railroad or corporation, include loans and bills payable, accounts payable, payrolls and vouchers, interest and dividends accrued, amounts due to other companies, etc. Capital liabilities, on the other hand, cover capital stock, bonded debt, mortgages assumed, etc.

CUTTING A MELON. When a corporation makes a large extra distribution to its stockholders either in the shape of an extra large cash dividend or a stock dividend, it is usually said that the company is "cutting a melon."

DEBENTURE. A debenture, or, as called in this country, a debenture bond, is simply a certificate of indebtedness or promise to pay issued by a corporation. In other words, it is not a mortgage. It usually differs from the average income bond in that it contains a promise to pay a certain amount of interest at stated periods. While an income bond is sometimes a mortgage and not a debenture, yet as it cannot be foreclosed before maturity, which may be 50 years away, the position of the principal of the two classes of bonds is therefore practically the same. In England a debenture bond or stock is sometimes secured by a mortgage, but not usually.

DEFAULT. A default on a bond is simply the failure to perform or fulfil the obligation to pay the interest or principal when due. Usually a default furnishes ground for application for a receivership, although in some instances mortgage bonds carry a clause which does not allow the holder to begin foreclosure proceedings until the bond has defaulted over a certain stated period. For instance, in the case of the United States Steel Corporation second mortgage 5s, the holder could not begin foreclosure proceedings until the bond had

been in default in the payment of its interest for at least two years.

DISCRETIONARY ACCOUNT. In stock speculation a discretionary account is an account, the handling of which is intrusted to the broker with whom it is open. While there are conditions under which it is necessary for a broker to act on his own discretion, yet most reputable brokerage houses dislike to do this, and many of them refuse to.

DIVIDEND. A dividend is the stockholders' share of the divisible profits of a corporation, usually paid to him in cash at certain stated periods. There are, of course, various conditions under which dividends are paid, and in many cases they are not paid in cash. For instance, a "scrip" dividend is one payable in scrip, or in other words in a small certificate bearing interest at the legal rate and which is usually converted into stock, but has no voting power and is entitled to no dividend until converted into stock. A stock dividend, however, is one payable in the stock of the company, and is large enough to enable the holder of the stock to receive a full certificate and not fractions or scrip. Cash dividends are usually sent by check to the owner of the stock, in whose

name the certificate stands. In case the owner of the stock has not had his certificate transferred to his name before the closing of the books, the dividend, of course, is sent to the former owner and he must pass it on to the new owner. When a speculator is short of a stock on which a dividend becomes due, he is obliged to pay the amount of the dividend to the person from whom he has borrowed the stock certificate to make delivery to the person to whom he has sold the stock.

EQUITY. The equity in a property is understood to be the difference between the value of the property mortgaged or otherwise encumbered and the amount of the obligation to secure which the property is pledged. For instance, the equity in a loan is the difference between what the securities pledged as collateral are worth and the amount borrowed on them. Securities are usually accepted as collateral by the banks at about 80% of their market value, that is, the lender will usually lend $80,000 on securities of the market value of $100,000. The difference, of course, between the market value of the securities and the amount of the loan is the equity. The term equity back of the bonds is often used by dealers in investment securities, and refers

usually to the total market value of all the securities which may be junior in lien or position to the specific security which is referred to. Thus, if a property has secured on it a bond issue of $10,000,000 and the property itself has a capital stock of $40,000,000, the stock being quoted at par, then the equity above the mortgage is about $30,000,000. If the stock is quoted at 150, the equity above the mortgage would presumably be about $50,000,000.

EXCHANGE. The word exchange in finance refers to the payment of an obligation in one place by the transfer of a credit from another place. By this operation the obligation is discharged without the direct borrowing of money. The exchange itself is an order obtained in one place for the payment of money in another place. There is really no practical difference between a bill of exchange and a draft. The term bill of exchange is usually applied to an order for money payable in a foreign country, whereas the term draft is applied to an order payable within the country of its origin.

EX-DIVIDEND This term means without or not including a dividend. For instance, dividends on stocks are usually declared pay-

able on a certain day after the transfer books of the corporation have closed. This may be five days or it may be 30 days. During this period the stock cannot be transferred from one name to another, and it therefore sells from that time on at a new price, which is usually measured by the amount of the dividend which has been declared and on which the books have closed. Thus, unless specifically arranged otherwise, no stock during this period will carry the dividend which will be mailed when the books open, as the dividend goes to the owners of stock of record on the day the books close.

EX-INTEREST. This means without interest or not including interest, and applies usually to bonds. Registered bonds sell ex-interest in the same way that stocks sell ex-dividend when the books are closed. In the case of coupon bonds the term ex-coupon is used in the same sense. Of course, in the case of coupon bonds no books are closed, and the bonds sell ex-coupon from the day that the coupon is paid and cut off the bond.

EX-RIGHTS. A stock that is sold ex-rights does not convey to the buyer the privilege to

participate in any right that may recently have been granted to the stockholders.

FIXED CHARGE. A fixed charge is one that becomes due regularly and at stated intervals and permanently. For instance, in the case of railroads, fixed charges include interest on bonded debt, interest on floating debt, sinking fund charges, rentals, taxes, etc. Failure to pay these charges usually constitutes a legal default and cannot be deferred except by agreement of all parties concerned.

FLAT. The term flat is used in relation to bonds or other securities which are sold without interest. That is, the interest is not computed and added to the price, but is, to a more or less extent, embraced in the price itself. In other words, the accrued interest, whatever it may amount to, is included in the net figure which is named as the price. In the stock market, when stock certificates are loaned flat the lender does not have to pay interest to the borrower of the stock. Ordinarily the borrower of stock pays the lender the market value of the stock, and the lender pays interest to the borrower on this money. When a stock is lending flat it signifies that this particular stock is not in adequate supply, or at least it

is not easy to obtain by borrowing. When, on the other hand, a stock is lending at a premium the borrower not only receives no interest on the money that he advances to the lender, but he also has to pay whatever amount may be agreed upon for the use of the stock. In such a case the stock is very scarce on the market or it is very difficult to obtain.

FLOATING DEBT. The floating debt of a corporation is the unfunded indebtedness; that is, indebtedness not represented by permanent security. Usually, floating debt consists of money directly borrowed; money owed for miscellaneous purposes, and money payable within a short period.

FOREIGN EXCHANGE. Foreign Exchange is, briefly, the payment of an obligation in a given place in one country by the transfer of a credit from a given place in another country by means of bill of exchange, as for instance, a bill drawn in New York and payable in London.

For instance, A in London owes $100,000 or the equivalent in pounds sterling to B in New York; likewise C in New York owes $100,000 or the equivalent of that sum, to D in London.

A in London buys a bill of exchange on New York collectible in New York, for the amount of his obligation and forwards it to B in New York; likewise C in New York buys a bill of exchange on London collectible in London for the amount of his obligation and forwards it to B in London. Thus, both A and C have paid what they owed, while B and D have received what is due them, and no money has crossed the ocean in settling the accounts.

A merchant in New York usually pays for goods bought in Paris or London with a bill of exchange or draft purchased from a bank or banker in New York, which is payable by the correspondent in London or Paris, as the case may be, of the New York bank or banker. The bill of exchange thus saves trouble, time and expense to the remitter. It is payable in French or English money as the case may be, and is purchased at the equivalent in United States money. Such is the method where exchange is bought.

Following is an instance where exchange is sold: A in New York makes a shipment of goods to B in London for which immediate payment is to be made. A makes out a draft on B for the amount due him and attaching to the draft the bill of lading for the goods sells the draft to a dealer in foreign exchange

in New York, who forwards it to his correspondent in London for collection from B. Thus, A receives pay for his goods as soon as they are shipped, and does not have to first ship the goods, then wait for them to reach London and then wait for a ship to bring back gold in payment for them, nor even to wait for the mail to bring back a draft bought by B in London on some bank or banker in New York; much less has he to wait for B to receive the goods, draw a check on his own (B's) bank in London and send it to him (A in New York) who would have to sell the check to some dealer in foreign exchange in New York. B, on the other hand, by receiving the bill of lading for the goods when the draft is presented to him for payment, knows not only that the goods have been shipped to him by A, but by possession of the bill of lading holds actual title to them.

Bills payable on demand or sight are called sight bills; bills payable in ten to thirty days are called short bills; bills payable in sixty days or in a longer period are called long bills. There are also cable transfers by which money (or credit) is transferred by cable. These for brevity are called cables. Bills drawn by banks or bankers against their credits abroad are called bankers' bills. These include letters of

credit. Bills drawn against shipments of commodities or manufactures are called commercial bills. Specifically, grain-bills are drawn against grain shipped and cotton-bills are drawn against cotton shipped.

FOUNDERS' SHARES. Shares which are sometimes given to the founders and promoters of a company; such shares generally divide the surplus profits with the common shares after a certain percentage has been paid on the latter. These shares are seldom created in this country, being chiefly the result of an English custom.

FRANCHISE. A franchise is a privilege conferred by grant from a government or municipality to a corporation or an individual. For instance, the right to construct a railroad from one point to another and operate the same over a given period of years constitutes a franchise. Also, a privilege given to a street railway, gas or electric light company or water company to operate on certain streets or within certain limits for a given period more or less exclusively, constitutes a franchise. These franchises are, in modern times, very largely capitalized; the capitalization being measured by the value given to the property

through its earning power. This earning power is of course fluctuating, and as the municipalities grow the earning power usually grows also. Therefore the franchise value which may have been small when the franchise was granted, sometimes grows to a very vast extent. Thus, the public utility franchises of New York City, many of which were of doubtful value when granted, have grown to be assets of enormous value and have been heavily capitalized.

FUNDED DEBT. A funded debt of a corporation is a debt usually running some years and represented by one or more issues of bonds. It is distinguished from floating debt chiefly by its relatively permanent character. While a floating debt may represent capital which has been borrowed for permanent uses, yet a funded debt nearly always represents this. Funded debt is also a term used for the liabilities of the British government, such as have been issued in the form of permanent or long-dated securities, as distinguished from the floating debt, which is in the form of exchequer bonds and treasury bills, and is regarded as temporary. This distinction, however, is not always clear, as the English War Loan issued

in 1900 and payable in 1910 is called a floating debt, but should be rated as funded debt.

GOLD BONDS. A bond which is specifically payable, principal and interest, in gold. In the days before 1896, when there was much doubt in the minds of investors as to the probability of the United States maintaining the gold standard, corporations found it necessary to insert what was called the gold clause in the mortgages they issued. Otherwise investors would not so readily purchase the bonds and it was difficult to float any issues which did not include the gold clause. The reason for this was that in the event of the currency system of this country going on a silver basis the principal and interest of the bonds would have been payable in this depreciated currency, and the investor would therefore lose possibly one-half of his principal. At the present time the gold clause is, of course, unnecessary, as there is no doubt whatever about the permanency of the gold standard in this country.

GRANGER RAILROADS. This is the Wall Street name which is given to the railroad systems of the west, like the Chicago, Burlington and Quincy, Chicago, Milwaukee & St. Paul, Chicago & Northwestern, Chicago

& Alton, Rock Island, etc. These railroads are called granger roads because many years ago a wide agitation was carried on by the State Grangers in the particular sections where these railroads run. The grange agitation was of such national interest and for so long a time affected the position and earning of these particular properties, that they came to be known as the granger roads, and have carried the name ever since. The mere fact that they carried grain had nothing to do with this particular appellation, as there are many other roads which nowadays carry as much, if not more grain than these systems and which are not included among the grangers.

G. T. C. When these letters are used with an order to buy or sell stock or commodities, they mean that the order is good till countermanded or good till cancelled.

GUARANTEED BONDS. A bond, the payment of the principal and interest of which is guaranteed by another corporation. When a railroad leases another railroad it frequently guarantees the principal and interest on the bonds of the leased road. Sometimes this guarantee is shown by endorsement on the

bond itself and sometimes is simply provided for in the lease.

GUARANTEED STOCK. A stock the dividends on which are guaranteed by a company other than the one which issued the stock. When a railroad leases aother road it frequently guarantees the dividends on the stock of the leased road.

HOLDING COMPANY. This is the same as a security company. That is, a company which owns the securities of other companies and depends for its income upon the interest and dividends yielded by these securities. It frequently issues bonds as well as stock itself. The most notable example of a holding company in the railroad field was that of the Northern Securities Co., which, however, was dissolved as being illegal by the United States Courts. It planned to hold the stocks of the Great Northern and Northern Pacific Railroad companies and possibly of other companies also. A holding company is frequently also an operating company. For instance, the Pennsylvania Railroad is both a holding company and an operating company. It operates several thousand miles of railroad and in addition holds a majority of the stocks and many

other securities of a large number of other railroads. On the other hand, the Pennsylvania Company of Pittsburg, itself controlled through stock ownership by the Pennsylvania Railroad, is a pure holding company, and simply holds the stocks and certain other securities of the various Pennsylvania lines west of Pittsburg and Erie. The New York Central Railroad is a holding company as well as an operating company. This is also true of all the large systems such as the New Haven, the Union Pacific, Baltimore & Ohio, Illinois Central, etc. The Reading Company on the other hand, is simply a holding company, and holds a majority of the stocks of railroads like the Philadelphia & Reading, New Jersey Central, as well as the stocks of certain coal and iron companies in the anthracite coal fields.

HYPOTHECATION. This implies the pledging of securities or other property as collateral for loans. When securities are pledged for a loan the title to them is surrendered for the time being to the bank or lender with which or with whom they are pledged. On the London Stock Exchange stock or securities pledged as collateral are said to be pawned.

INCOME ACCOUNT. This is the revenue account, and in the case of most corporations

it embraces such items as gross earnings, operating expenses, net earnings, income from other sources, fixed charges and other deductions for dividends, dividend charges and surplus.

INCOME BASIS. The income basis of an investment is the percentage of return on the price. As for example, the percentage that the interest on a bond or the dividend on a stock equals when calculated on the cost of the bond or stock. A stock paying 6% which is bought at 120 yields 5%, therefore, this stock at 120 is on a 5% basis.

INCOME BOND. A bond that is presumably a lien on the net income or earnings of a corporation after all prior charges have been paid. It receives interest only when earned, and is somewhat similar in character and position to a preferred stock, with the exception that a preferred stock usually has voting power. An income bond is not usually a mortgage, and even when it is, it cannot be foreclosed before maturity, provided the provisions regarding interest payments on earnings are technically adhered to.

IRREDEEMABLE BOND. A bond which cannot be redeemed or paid off, but the interest

on which goes on forever. There have been many such issues made by European governments and municipalities, but very few have been issued in this country.

JOINT BOND. A bond in which the payment of the principal and interest is assumed by two or more parties or corporations who are jointly bound. There are many such issues among railroad bonds. The most frequent instances are where two or more railroads use the same station or terminal property at a given point, and jointly issue a mortgage for the purpose of expanding or improving the said property. The bond is usually issued by the terminal company itself, and then jointly guaranteed as to both principal and interest by the railroad companies which use the property.

KAFFIRS. This is the London Stock Exchange name for all shares of South African mining, land, industrial and other companies.

KANGAROOS. This is the London Stock Exchange name for shares of all West Australian mining, land, industrial and other companies.

KITING. Kiting is, simply stated, the incurring of a fresh obligation to discharge an old one. The commonest form of kiting is by means of checks. For example, a depositor in a bank has issued a check which overdraws his account. He makes out another check, obtains cash for it elsewhere than at the bank, and deposits the cash in the bank in time to meet the first check. Two or three days may elapse before the second check reaches the bank, and before its arrival another check has been made out and the cash obtained for it and deposited. So the process may continue.

A person engaged in kiting may arrange to exchange checks with one or more persons, and thus enlarge the circle of operations to greater and greater degrees. He may also gain time by sending his check to other places which are remote from his bank. It is unnecessary to say that check kiting is illegal.

LISTED STOCKS. Stocks which have been placed on the regular list of the New York Stock Exchange or other stock exchanges, and are thereby admitted to dealings on the exchanges, are commonly known as listed stocks. In the case of the New York Stock Exchange there are two classes of stocks; those known as listed securities and

those known as unlisted securities. In order that a security may be listed certain rules must be conformed to by the company making the application, these rules bearing particularly upon the financial statement submitted by the company. With the unlisted securities, however, the case is somewhat different. The latter are not obliged to submit details regarding their earnings or financial condition. In the method or scope of dealings on the floor of the exchange there is, hovewer, no difference between listed and unlisted securities.

LOMBARD STREET. A street in London, located in the financial district. The name Lombard Street, however, applies to the whole banking center of London. The name was probably originally given to the street for the reason that some of the Lombard Jews, who began banking in Italy in the Ninth Century, afterwards went to London and settled in this particular locality.

LONDON QUOTATIONS. A quotation on the London Stock Exchange means the price at which the jobber or dealer will either buy or sell. Thus, when a jobber quotes 99¾—100¼ it means that he will buy at 99¾ or will sell at 100¼. When, in giving a quota-

tion the "middle price" is named, it means the price midway between the jobber's buying and selling price. In the above quotation the middle price would be 100. On the New York Stock Exchange, on the other hand, the quotations (except "bid" and "asked") are the prices at which actual transactions take place.

LONG ACCOUNT. This term designates a stock or other account on the ledger of a broker which shows one or more purchases made in expectation of a rise in the price of the particular security which is in the account. The same term also applies to similar purchases of grain, cotton, coffee, etc. It is just the reverse of "short account," the latter designating securities sold "short."

MANIPULATION. In speculation this term is applied in a broad sense, to the various operations employed for the working of stock or other quotations up or down, or both ways, as the case may be. Among the familiar methods employed for thus affecting the prices of securities, is the dissemination of reports, sometimes true and sometimes false, to affect the prices of particular stocks; the circulation of rumors, coloring of news or suppression of facts. In the sensitive, mercurial atmosphere

of Wall Street, rumors are often most potent in affecting stock quotations, and often prices are temporarily changed to a very absurd and abnormal extent by such methods. In addition, there are other more positive ways of manipulating prices, a favorite one being what is known as "wash sales." "Washing" in Wall Street consists of buying and selling a given security at the same price and at the same time. The operator wishes to advance a stock in price and gives to one broker an order to bid the stock up on a scale; that is to say, the broker is instructed to offer to buy a certain amount of stock, bidding for each lot 1/8 of one per cent. above the last price paid. At the same time, the operator gives another broker an order to sell the same amount of stock at similar prices. Thus, other things not interfering, the operator raises the price of the stock without actually buying anything. If, on the other hand, the operator desires to depress the price of a stock, similar methods are employed, except that they are reversed.

Pools are often formed in Wall Street to manipulate stocks, in which cases, everything is usually done on a much more comprehensive scale than when only a single operator is carrying on the washing process.

MARGIN. The money deposited with a banker or broker by an operator or speculator in stocks or in grain, cotton, coffee, and so forth, to protect the broker against loss. In other stocks the amount of margin required by a broker varies from 5% to 20% of the par value, according to the kind of security dealt in, or the character of trading done. The average margin is 10%, which is equal to $1,000 on 100 shares of stock, or on $10,000 of bonds.

Stocks or bonds bought on margin by a broker for a customer are at all times, in the absence of an agreement to the contrary, subject to the order of the customer. A customer has the right to demand delivery at any time of the securities upon payment of the amount owing on them, including commissions, interest and any other proper expenses or charges. At the same time, unless there is a specific agreement to the contrary, the broker may at any time, upon giving proper formal notice, require the customer to "take up"; that is, pay in full for the stocks or other securities which are being carried. If the customer is short of stocks the broker may demand that he buy the stocks or otherwise close out his account.

When 100 shares of stock is bought at the New York Stock Exchange on a 10% margin (the price being $100 per share), the broker

executing the order receives the stock and pays $10,000 for it to the broker from whom it is purchased. The buying broker having received only $1,000 from his customer, thus advances $9,000 additional, which he treats as a loan to the customer, holding the stock as security for the money so advanced. On the amount of money so advanced he charges the current rate of interest. Should the stock be later sold at 115, $11,500 could be received for it. The gross profit on such a transaction would be $1,500, but from this amount would be deducted the broker's commission and the interest on the money advanced by the broker.

In the event of a stock declining below the purchase price, the customer is of course required to deposit more margin. If he fails to do this, the broker has the right to "sell him out"; that is to say, to sell the stock for what it will bring, after which he will return to the customer whatever balance, if any, is due the latter, less whatever commissions, interest or other expenses that may have properly been charged.

If a speculator sells a stock short he deposits margin the same as he does when he buys a stock. If the stock is sold at 100 and is bought back at 90 the speculator's profit would be $1,000, less the broker's commission. Should

the stock advance to any considerable extent, the customer is, of course, required to deposit sufficient additional cash to keep his margin intact; in the event of his failure so to do, the broker may close him out by buying in the stock at the lowest price and settling the difference, if any, less the commission, etc.

MATCHED ORDER. A Wall Street term, which means an order to buy and sell the same stock; such an order is usually employed for the purpose of artificially raising or lowering the price of a stock. It is the same as stock-watering.

MILEAGE. Means length or distance in miles. The road mileage of a railroad is the length in miles of the railroad itself. Track mileage is the length in miles of the tracks of the railroad, each mile of double track being counted as two miles; side tracks and switching tracks also being counted and included in the mileage. Track miles means the same as track mileage.

Train mileage is the number of miles traversed by a particular train; or the number of miles, collectively, traversed by all trains of a railroad. The result attained by adding together the number of miles traversed by all

trains and dividing by the number of trains shows the average number of miles traversed by each train. Train miles means the same as train mileage.

Car mileage is the number of miles traversed by a particular car; or, again, it is the number of miles, collectively, traversed by all cars. The result attained by adding together the number of miles traversed by all cars and divided by the number of cars shows the average number of miles traversed by each car. Car miles means the same as car mileage.

Ton mileage is the number of miles the whole number of tons are hauled. The average number of miles each ton is hauled (transported) is ascertained by adding together the number of miles each ton is hauled and then dividing by the number of tons. Ton miles means the same as ton mileage.

Passenger mileage means the number of miles, collectively, traveled by all passengers. The number of miles traveled by all passengers, divided by the number of passengers shows the average number of miles traveled by each passenger. Passenger miles means the same as passenger mileage.

MIXED LOAN. A loan secured by collateral of different character, as railroad and

industrial stocks, instead of railroad stocks alone or industrial stocks alone.

MONETARY. Pertaining to money or finance; consisting of money; financial; pecuniary; as monetary convention, monetary union, etc.

MONETARY STANDARD. The standard of value established by law as the basis for the money of a country. By long process of evolution or natural selection gold and silver have been left in possession of the field to the exclusion of everything else, and now all the monetary systems of the world are based on one or the other or both together. Gold, however, is rapidly becoming the universal standard in law as it has been in fact for many years.

Great Britain first adopted the gold standard (1816). One by one the nations have fallen into line, the United States as recently as 1900, leaving the Latin Union as the most important representative of the double standard system, while the use of silver is practically confined to the Far East and to Mexico and some parts of Central and South America.

The bimetallic system in its unrestricted form has proved a failure owing to the wide

variation in value between gold and silver, and no nation any longer undertakes to coin both gold and silver in unlimited quantities. The countries which still retain nominally the double standard, place severe restrictions on the use of silver, and mint it only on government account, while gold is coined as freely as it is offered.

Thus, gold has become practically the standard of the world, for not only do the double standard countries restrict the use of silver for the purpose of keeping their silver money at a parity with gold, but the silver standard countries in all international transactions are forced to use gold as the basis of exchange.

The value of a gold coin depends on the amount of pure gold it contains; therefore, governments in establishing their monetary standard and monetary unit declare by law the weight and quantity of the coin in which values are to be measured. Thus, in the United States, where gold is the standard and the dollar the unit, it is enacted that a gold dollar shall contain 23.2 grains of pure gold and 2.6 grains of alloy, making the weight of the dollar 25.8 grains of standard gold .900 fine. In Great Britain the unit is the sovereign or pound sterling and contains 113 grains of pure gold and 10.27 grains of alloy, making the standard

of fineness .916 2-3 instead of .900 as in the United States and most other gold-using countries.

MONEY BROKER. A dealer in coin and paper money and in foreign money; also one who borrows and lends money for others.

The regular commission of a money broker for negotiating a time loan (a loan for a specified time) is 1-32 of 1% of the amount borrowed or $31.25 on $100,000. The commission is paid by the borrower.

A money broker receives nothing from the borrower or the lender for effecting a call loan. The reason is that a call loan may continue for a day only. The broker expects the free negotiation of call loans to bring business to him when the borrower on call becomes a borrower on time.

MONEY MARKET. This is a term applied to the business of lending money and not to a place where money is loaned, for there is no specific place (in New York) for lending money.

In New York the banks, trust companies and insurance companies are the chief lenders of money, but there are other corporations and not a few firms and individuals who are lend-

ers. As in every other market, supply and demand are the factors which determine prices, or in other words, the rates exacted for the use of money. If the demand is large and the supply small, rates are high; if the demand is small and the supply large, rates are low.

Money is stiff when it commands high rates of interest. It is tight when it is difficult to obtain even at high rates; in these circumstances there is a pinch or stringency in money. There is a squeeze in money when it cannot be borrowed except at exorbitant rates; in a squeeze a premium as well as interest is exacted on call loans. A premium of 1/8% a day and interest (at the rate of 6%) figuring on the customary basis of 365 days in a year, means a rate equal to 52% a year.

MONEY RATES. Means the rates of interest at which money is lending. There are different rates for call money (money loaned on call—that is, returnable on the demand of the lender) and time money (money loaned on time—that is, loaned for a specified period). The rates for call money are usually lower than those for time money. For additional information see Call loan; also see Time loan.

MONOMETALISM. Exists in a country

when the currency of the country is based on a single metal, as either gold or silver.

MORTGAGEE. The grantee under a mortgage; the one to whom the mortgage is executed.

MOVABLE EXCHANGE. If foreign exchange is quoted and also is payable in the money of the country where collection is to be made, it is called movable exchange. For instance, exchange on Paris is quoted in francs in New York and is therefore movable exchange. The dollar is the basis and the franc fluctuates instead of the dollar in which it is reckoned. The opposite of movable exchange is fixed exchange.

MUNICIPAL BONDS. Those issued by a borough, town or city possessed of a charter of incorporation conferring privileges of local self-government.

NATIONAL DEBT. Same as public debt; the debt due from a nation to individual creditors.

The national debt of the United States consists of bonds, United States notes (greenbacks), old demand notes (notes issued prior

to the present United States notes), national bank notes for the redemption of which money has been deposited by the issuing banks, fractional currency, gold certificates, silver certificates and Treasury notes (issued for the purchase of silver bullion).

NET. Clear of all charges or deductions as actual profit or actual loss. The net earnings of a stock company are the earnings left after deducting expenses.

Brokers on the outside or curb market in stocks often take an order net, which means that the customer will deliver or receive the stock, as the case may be, at a fixed price. The broker receives no commission but is allowed to make as much on the transaction for himself as he can.

NEW YORK CLEARING HOUSE ASSOCIATION. The official title of the organization under which the associated banks of New York conduct daily clearings.

The association was organized September 13, 1853, and clearings were begun on October 11 in the basement of No. 14 Wall Street. The first day's clearings amounted to $22,648,109.87 and the balances to $1,290,572.38. The number of banks making clearings was 52. The first

manager was George D. Lyman, who had been a teller in the Bank of North America. The association now owns the handsome white marble building Nos. 79 to 83 Cedar Street.

NEW YORK STOCK EXCHANGE. The New York Stock Exchange is an unincorporated voluntary association, and while it is not a corporation neither is it a partnership. It exists, however, under a written constitution and by-laws. Neither the constitution of the New York Stock Exchange nor the rules and regulations of the London Stock Exchange in express terms state the object for which those bodies were organized, but they are so manifest that a statement of them has not been deemed essential.

The New York Stock Exchange has its origin in an agreement dated May 17, 1792, by "Brokers for the Purchase and Sale of Public Stock." By public stock was meant government securities; in other words, government bonds. At that time the brokers met and did business under a buttonwood tree that stood in front of the dividing line between the present Nos. 68 and 70 Wall Street. In 1817 a constitution was adopted under the name "New York Stock and Exchange Board." On Janu-

ary 29, 1863, the present name, "New York Stock Exchange," was adopted.

The membership of the New York Stock Exchange is limited to 1,100. The admission fee is $2,000, but this is in addition to the cost of a membership itself, which depends on the "state of the market" for seats, as memberships are called. A membership is obtained by buying the seat of a retiring, deceased or expelled member. A member is elected for life, or until he resigns or is expelled.

Expulsion from the exchange forfeits membership, but not the proceeds of it. Temporary insolvency involves suspension. Permanent insolvency involves loss of membership, and the proceeds of the membership are applied to the payment of the claims of creditors who are members of the exchange. If there is a surplus, it goes to the member or to his assignee, if he has been declared a bankrupt.

When a member dies his seat may be disposed of by the committee on admission and the proceeds delivered to his executor or the administrator of his estate.

NEW YORK STOCK EXCHANGE CLEARING HOUSE. The place where the differences in the accounts of the brokers on the New York Stock Exchange are settled.

Before the establishment of the clearing house a broker who had made sales of stock was obliged to send the stocks to the office of the various purchasers and collect payment from them. At the same time brokers from whom he had bought stocks were obliged to send the stocks to his office and collect payment from him. A broker may have made sales to the amount of $500,000, and purchases to the amount of $475,000. He was compelled to make collections and payments for the full amounts, whereas under a clearing house plan he might have settled all the transactions in one operation, and by the payment of only the difference of $25,000.

Now, a broker, at the end of each day, makes up a sheet called a clearing house sheet, containing his purchases and sales. On one side of the sheet (the left hand side), the broker puts down his purchases, each purchase having a line for itself. In each transaction the name of the broker from whom the purchase was made comes first and then in order follow the numbers of shares, the name of the stock, the price at which purchased, and finally, the amount in dollars of the purchase. This side of the sheet is headed "Received from," meaning that the broker has contracted to receive the stocks enumerated.

The other side of the sheet (the right hand side) contains the list of stocks sold (made out in the same order as the list of stocks bought), and this side of the sheet is headed "Delivered to," meaning that the broker has contracted to deliver the stocks enumerated.

If his purchases amount in money to more than his sales, he accompanies his sheet with a check drawn on his own bank and payable to the clearing house bank (a bank in which the clearing house account is kept). If his sales amount in money to more than his purchases he accompanies his sheet with a draft on the clearing house bank, which is accepted by the manager of the clearing house (made collectable by the indorsement of the manager). This draft is returned to the broker and is deposited by him in his own bank for collection in the ordinary course.

If the broker has bought more of any particular stock than he has sold or sold more than he has bought, there is a stock difference (as well as a money difference) to be settled, but the settlement of this stock difference is provided for when the sheet is made up. If, for instance, the broker has bought 200 shares of a certain stock and has sold 100 shares he receives the difference or balance of stock, which is 100 shares. Some other broker who

sold 100 shares more of the stock in question than he bought is directed by the manager of the clearing house to deliver this extra 100 shares to the first broker. The first broker credits himself on his sheet with the amount in money of this stock at the settling price, while the second broker charges himself with the amount of it on his sheet.

The settling price is an arbitrary price fixed by the manager of the clearing house. Each day at the close of business the manager of the clearing house sends out through the ticker the settling prices for the various stocks for the use of brokers in making up their clearing house sheets. In their use in making up the sheets they are called making-up prices; in their use in making settlements they are called settling prices. These settling prices are the even prices next nearest to the last prices of the day. Thus, if the last price of a stock was 99¾ or 100¼ the settling price would be 100.

The broker who bought 200 shares may have bought them at 99½, and the 100 shares which he sold may have been sold at 100½. If the settling price was 100, he would put down the extra 100 shares due him in the sold column at 100, the same as if he actually had sold the stock at 100.

Then his account would figure out thus: Bought 200 at 99½, which equals $19,900; sold 100 at 100½ and 100 at 100, which equals $20,-050. The difference is $150, which the broker collects by draft on the clearing house. Had he not included the 100 shares at 100 he would have owed $8,850. To the broker who delivers the 100 shares to him at 100 he gives a check for $10,000.

This particular part of the operation (the delivery of the stock and collection for it), is wholly outside of the clearing house. Deducting from this $10,000 the $150 received in the clearing house settlement, his net payment is $8,850, exactly what it would have been had he not included the 100 shares at 100 in the clearing house sheet.

No matter if the broker bought more stock than he sold, or sold more than he bought, or what the prices may be or how many stocks may be included in his sheet, the system employed in clearing his sheet accomplishes its end. Inasmuch as the differences both in cash and stocks are provided for in the clearing house sheet, there is, when the general settlement is concluded, no balance left of either cash or stock. There was, of course, as much of each stock sold as was bought, because there was a seller as well as a buyer at the same

price in each individual transaction, and, accordingly, there was as much receivable in the aggregate as there was payable. Both sides of every account are bound to balance or equalize when the differences in the stock and money are figured out and put down in the proper places.

The broker who is short of stocks in his sheet (who sold more than he bought), must borrow the stocks that he is short of for the deliveries which he is directed by the manager of the clearing house to make.

Not all stocks that are dealt in on the New York Stock Exchange are cleared through the stock exchange clearing house. Only those on the clearing house list are cleared. The stocks on this list are the ones actively (largely) dealt in. If an inactive stock becomes active it is put on the list; if an active stock becomes inactive it is taken off the list.

Transactions in stocks not on the clearing house list are not reported to the clearing house at all. Settlements in these stocks are made between the brokers in the ordinary course of business. For another thing, only stocks bought and sold "regular way" (in the regular way) and at seller 3 are cleared.

Stocks bought and sold "regular way" are put on the clearing house sheet on the day

they are bought and sold, but are deliverable on the following day. Stocks bought and sold at seller or buyer 3 are not delivered until the third day after they are sold, and are not put on the clearing house sheet until the second day after they are bought and sold; they are put on the clearing house sheet at the selling price on the second day.

NON-ASSENTED STOCK OR BONDS. Stock or bonds which the owners refuse to deposit under an agreement by which their status will be changed. For additional information see Readjustment.

NON-CUMULATIVE STOCK. Stock on which dividends, if not paid, do not accumulate—that is, if dividends are not paid for a period they have not subsequently to be paid for the period when they were not declared.

NON-INTEREST-BEARING. Bearing or paying no interest. The money issued by the United States government, since the government pays no interest on it, is a non-interest-bearing obligation; the bonds issued by the United States government, since the government pays interest on them, are interest-bearing obligations.

NOTE BROKER. One who effects the sale of promissory notes. A note broker is different from a money broker. The commission of a note broker is generally ⅛ or ¼ of 1% of the amount of the note. This commission is paid by the one for whom the broker sells the paper. The buyer pays no commission.

ON A SCALE. A term used in speculative operations in stocks, meaning buying or selling, as the case may be, at stated intervals, in prices as prices decline or advance. For instance, buying at 100, 98, 96, 94 and 92 would be buying on a 2% declining scale. Reversing the order of prices would be buying on an ascending scale. The operation of selling on a scale is conducted in the same fashion.

ON MARGIN. When stocks are bought or are sold short on margin a percentage of the par (face) value, say 10%, is deposited with the broker to secure him against possible loss. The amount deposited is margin.

For information as to margin or speculative operations in stocks bonds, grain, lard, pork, short ribs, cotton, coffee and silver bullion see margin.

OPTION. Property bought or sold to be received or delivered by the buyer or seller in

accordance with the terms agreed upon. Sometimes the buyer pays for the privilege of calling for the delivery of the property within a certain time if he so wills, but he is not obliged to take it; sometimes the seller pays for the privilege of delivering the property.

In speculation an option is the purchased privilege of either receiving or delivering a specific amount of anything (as stocks, grain, cotton, coffee, etc.) at a specified price within a specified time.

In stocks bought on the buyer's option the buyer may, when the option is for four days or more, demand delivery of the stock on any day within the time specified on one day's notice to the seller. In stocks sold on seller's option, when the option is for four days or more, the seller may deliver the stock to the buyer on any day within the time specified on one day's notice to the buyer.

When a dividend becomes due on a stock during the pendency of an option on it the dividend is collected by the seller of the stock, who holds it, allows interest on it and pays the dividend, with the interest on it, to the buyer on the settlement of the contract. When an option on a stock matures during the closing of transfer books, the seller of the stock gives to the buyer of the stock a due bill for the

amount of the dividend which is payable when the dividend is paid, but the due bill does not bear interest.

OPTIONAL BOND. A bond maturing (expiring) at a specified date, but which may be redeemed (paid and cancelled) after a designated date at the pleasure (option) of the company (or government) issuing it. Thus, a bond maturing in fifty years, but which may be redeemed after ten years, is an optional bond.

ORDINARY STOCK. Common or general stock. In Great Britain, when an ordinary (common) stock has been divided into two parts, one part, called deferred, receives no dividend until the other part, called preferred, has received a dividend at a fixed rate. The deferred stock is called A stock and the preferred stock is called B stock.

This B or preferred stock is not the same as preferred stock in the United States. What in the United States is called preferred stock is in Great Britain called preference stock, and preference stock in Great Britain may be divided into two or more classes called first preference, second preference, etc., just as preferred stock in the United States may be di-

vided into two or more classes called first preferred, second preferred, etc. When, however, there is but one class of preference stock ahead of an ordinary stock in Great Britain, the B or preferred stock is equivalent to second preferred stock in the United States.

OUTSIDE BROKER. A broker who is not a member of an exchange; one who deals in securities that are not dealt in on a stock exchange. A dealer in the outside market or on the curb is an outside broker. In New York such a broker is not a bucket shop keeper; see Bucket Shop. In London an outside broker is one who is not a member of the London Stock Exchange, and is sometimes described as a bucket shop keeper. Many English outside brokers, however, conduct a perfectly legitimate business.

PAR. The face value. On the New York Stock Exchange if the face value of a stock is \$100 it is at par when it is selling at 100. It is above par when it is selling at a higher price, as 101; it is below par when it is selling at a lower price, as 99. Half-stock (stock of the face value of \$50) also is at par when it is quoted at 100% which in this case means \$50. The face value of a stock is divided into 100

parts for quotation purposes, no matter what the face value may be, and each part is called 1% or 1 point. Therefore, when a half-stock is quoted at 101 it is one point above par, which means that the stock is worth $50.50 a share; when it is quoted at 99 it is 1 point below par, which means that the stock is worth $49.50 a share. The same principle applies to quarter stock (stock of the face value of $25) and, in brief, to stock of any face value.

In some markets stocks are quoted in dollars instead of by percentage. Thus, in such markets if a stock of the face value of $100 is selling at 100 it is at par; if selling at 101 it is 1 point above par; if selling at 99 it is 1 below par. Likewise, if a stock of the face value of $50 is selling at 50 it is at par; if selling at 51 it is 1 above par; if selling at 49 it is 1 below par. So, also, if a stock of the face value of $25 is selling at 25 it is at par; if selling at 26 it is 1 above par; if selling at 24 it is 1 below par; and so on.

PAR OF EXCHANGE. The par of foreign exchange is the fixed intrinsic value of the currency unit (monetary unit) of one country expressed in the terms of the currency of another country which uses the same metal as a standard of value. Thus in United States gold

money is 4.11 shillings, or 4 shillings 1.31 pence in English gold money, or 5 francs 18.26 centimes in French gold money, or 4 reichmarks (marks) 19.79 pfennig in German gold money, or 2 guilders (florins) 48.78 cents in Netherlands (Holland) gold money, and so on.

If the price paid for a bill of exchange just equals the amount for which it is drawn, then exchange is at par; if more is paid exchange is above par; if less is paid exchange is below par.

Between a gold standard country and a silver standard country there can exist no fixed par of exchange, for the reason that silver, unlike gold, has not a fixed value; in other words, silver being merely a commodity, its value depends on the state of the market for it.

PARTICIPATING BOND. Comparable to an income bond, inasmuch as the return to the holder in interest depends on the extent of the revenues so applicable.

The first bonds to bear this name were issued in 1902, and were designated "4 per cent. and participating bonds." These bonds were in effect collateral as well as income bonds. The company which issued the bonds owned stock in another company, and this stock was deposited and pledged as security for the principal of the bonds. Interest at 4% was guar-

anteed by the company which issued the bonds and the bonds were also entitled to receive interest in excess of 4% as permitted by the dividends paid on the stock securing the bonds beyond the amount necessary first to provide for the 4% as guaranteed.

PASSENGER DENSITY. A term used in railroad accounting, meaning the result obtained when the total number of miles of passengers carried is divided by the number of miles of road operated.

PASSENGER MILES. A railroad term; the number of miles, collectively, traveled by all passengers. The result attained by adding together the number of miles traveled by all passengers shows the average number of miles traveled by each passenger. Passenger mileage means the same as passenger miles.

PASSING A DIVIDEND. Failure to declare a dividend that had previously been regularly paid. When the directors vote not to pay a dividend that previously had been regularly declared the dividend is stopped; when the dividend simply is not declared it is passed.

PLAIN BOND. A bond not secured by mortgage or collateral and without a sinking

fund provision. A debenture bond being (as a rule) merely a promissory note in the form of a bond is a plain bond.

POOL. This term applies when interests join together for mutual advantage.

The anthracite coal pool, as it formerly existed, was an agreement whereby each company belonging to the pool was to mine a certain percentage of the total production. The production for each month was determined in the preceding month. The purpose of the pool was regulation of both output and prices. By restricting the output to the consumptive demand, control of prices was accomplished. A schedule of prices was prepared for each month and all the companies made sale of coal in accordance with it. The anthracite coal pool was declared illegal by the courts on the ground that it was in restraint of trade.

PREFERENCE STOCK. This is the English designation for stock that is preferred over other classes as to dividends and assets. It is equivalent to what in the United States is called preferred stock when there is only one class of preferred stock, or to what is called first preferred when there are two classes. Preference stock is sometimes divided into classes, as first

preference, second preference, etc., with the right to dividends in the order named.

PREFERRED ORDINARY STOCK. English—also called B stock—receives a dividend at a fixed rate before any payment can be made on the deferred ordinary stock. For additional information see Preferred Stock.

PREFERRED STOCK. Stock that is preferred as to dividends and assets; it must receive a dividend before a dividend can be paid on the common stock, and in a distribution of assets it participates ahead of the common stock. Cumulative preferred stock is stock the dividends on which, if not paid regularly or in full, accumulates, and must be paid in the future before a dividend can be paid on the common stock.. Preferred stock is the English designation for preferred ordinary (common) stock. When for dividend purposes the ordinary stock of a company has been divided into two parts called preferred or "B" stock and deferred or "A" stock, the dividend on the "A" stock is deferred until a fixed amount has been paid on the "B" stock.

This "B," or preferred stock, is not the same as preferred stock in the United States. What in the United States is called preferred stock

is in Great Britain called preference stock, and preference stock in Great Britain may be divided into two or more classes called first preference, second preference, etc., just as preferred stock in the United States may be divided into two or more classes called first preferred, second preferred, etc. When, however, there is but one class of preference stock ahead of an ordinary stock in Great Britain, the "B," or preferred stock, is equivalent to second preferred stock in the United States.

Preference stock is sometimes divided into classes, as first preference, second preference, etc., with the right to dividends in the order named.

PREMIUM. The amount named in excess of the par (face) value. When a stock, for instance, is selling at a premium, the premium is the amount it brings beyond its par or face value. When a stock is lending at a premium (see Borrowing and Lending Stocks), the premium is the amount paid by the borrower of the stock to the lender of it for the use of it. The purpose, usually, for which a stock is borrowed is to enable the borrower, who has sold it short (sold stock he did not possess), to make delivery to the purchaser.

In Great Britain when a stock or other se-

curity is at a premium the premium is reckoned at so much in the pound on shares and at a percentage on stock or bonds.

In insurance in Great Britain the premium is the consideration paid by the policy holder for insurance. Thus, a premium of 20 shillings per cent. means that 20 shillings is the premium on each £100 insured.

PRINCIPAL. The capital sum upon which interest is payable; also, the one who employs a broker or other agent.

A principal is responsible for the act of an agent, but an agent who exceeds his authority renders himself personally liable.

A person who has given money to his own agent to be delivered to his creditor cannot set up the claim that he has paid his creditor unless the money actually reaches the creditor. In other words, while the money is in the control of the agent of the debtor it is at the debtor's risk, and it cannot be charged against the creditor any more than if it remained in the debtor's own hands.

PRIVILEGE. A general name for a call, put, spread or straddle, information as to each of which is furnished under its own title.

There can be no loss to the buyer of a privilege beyond the amount paid for it. Privileges are legal and are enforceable as contracts, but they are not recognized by the New York Stock Exchange.

Privileges are often bought as a protection against loss on transactions in the stock market. Illustration: One hundred shares of stock are bought at 100. A put under which the stock can be delivered at 98 is purchased for 1%, which makes the net price of the put 97. Then, if the stock goes down to say 94, the stock owned by the holder of the put can be put (delivered) to the issuer of the put at 98 so that the net loss is only 3% instead of 6%, as would be the case if no put had been bought and the stock had to be sold at 94. On the other hand, should the stock go up to say 106, only the cost of the put would have to be deducted from the profit on the stock.

In the case of a stock sold short a call would be employed for protection against loss. If the stock were sold short at 100 and if a call at 102 were purchased for 1% and the stock advanced to 106, the net loss would be only 3%, as against 6% if no call had been purchased and the stock had to be covered (bought back) at 106. If the stock against which the put was bought went down to 94, only a deduction of

1%, the cost of the put, would have to be made from the profit on the stock.

Calls and puts on grain are based on the same general principle as those on stocks, but they are not employed to any extent except to limit loss. In some states puts and calls on grain are illegal.

PROXY. A person who is empowered to represent another in a given matter; the name is also given to the instrument by which a person is empowered so to act.

A person who votes by proxy on stock belonging to another is said to hold a proxy on the stock.

PUT. A put (on a stock) is a contract or written agreement binding the issuer to receive from the holder, stock named in the agreement within a certain time at a certain price if the holder shall so demand, or in other words, shall elect to deliver (put) the stock. For example, A signs a promise to receive 100 shares of some specified stock from B at 100 at any time within 60 days if B so demands. A sells this promise to B for, say $100. If, within the 60 days, the stock falls in price so that B can buy it at a profit, B buys it at the lower price and calls on A to receive the stock. The stock

must go below 99 before there is a profit for B. If the stock advances or does not fall below 99, B, of course, does not deliver (put) it and A makes $100 on his risk. In delivering the stock B must give one day's notice, except on the last day, when no notice is required.

If a dividend becomes due on a stock during the pendency of a put on it the dividend goes to the seller of the put if the stock is put (delivered) to him. A dividend always goes with the stock.

A put on grain or any other speculative commodity is based on the same general principle as in the case of stocks.

PYRAMIDING. A system of enlarging operations by use of paper profits (profits in transactions not yet closed and consequently not yet in hand).

Illustration: One hundred shares of stock of the par value of 100 is bought at 10 on a margin of 5%. The stock advances to 15. There is a profit of 5% which can be used as margin in the purchase of 100 shares more. The price goes up to 20. There is then a profit of 5% on the second lot and an additional profit of 5% on the first lot, so that there is an unencumbered profit of 10% on 100 shares or 5% on 200 shares. The profit is utilized as margin for

the purchase of 200 shares more. The price goes up to 25. Then there is an unencumbered profit of 5% on the whole 400 shares or 20% on 100 shares. This profit is used to buy 400 shares more.

Then, perhaps, the price drops to 20. There being only 5% margin on the whole 800 shares the whole accumulated profit of $3,500 disappears, as well as the margin of 5% provided for the purchase of the first 100 shares. Should the price go on up to 30, however, the profits would be increased by $4,000, which would provide 5% margin for 800 shares more of stock, making the total amount of stock held 1,600 shares, 1,500 of which would have been purchased with profits.

Selling stock at intervals on a decline, using profits for margin, is pyramiding, as well as buying it on profits on an advance.

RAILROAD EARNINGS. In compiling railroad reports the total earnings or receipts from traffic are set down as gross earnings and the remainder, after deducting operating expenses (cost of handling traffic), is net earnings. To net earnings is added other income (usually derived from investments, which are often in the form of securities held to control other roads) and the total is gross income (as

distinguished from gross earnings). From gross income are paid rentals and other charges, interest requirements (commonly called fixed charges), etc. The remainder is designated as net income. From it are paid dividends and what is left is surplus.

In reporting gross earnings it is the practice to divide each month into four weeks. The first seven days are counted as the first week, the second seven days as the second week and the third seven days as the third week, while the remaining days of the month are counted as the fourth week. In a month of 30 days the fourth week consists of nine days, and in a month of 31 days it consists of ten days. Thus, the fourth week may contain two Sundays.

The custom is to compare railroad earnings in a given period with those in the corresponding period in the year before. Railroad traffic is light on Sunday, so that when a fourth week containing two Sundays is compared with a fourth week containing only one Sunday, or vice versa, allowance must be made for the difference in the number of working days (week days). Likewise, in a monthly report of earnings a month may contain five Sundays, whereas the same month in the preceding year may have contained only four Sundays, or the reverse.

A railroad as a rule makes a weekly report of gross earnings; it makes a monthly report of gross and net earnings, with deductions for charges of all kinds, so that a monthly report takes account of everything in the month in question; and finally, the road makes a yearly (annual) report which is a consolidation of the twelve monthly reports with details added, and with remarks by the president and other officials.

READJUSTMENT. Sometimes called simple adjustment; a readjustment is when the financial reconstruction or rehabilitation of a railroad or other corporation is voluntary—that is, by concurrence of the security holders. Reorganization, as distinguished from readjustment, is when the financial reconstruction is compulsory—that is, when it is effected by a receivership and foreclosure.

In a readjustment (a financial reconstruction that is voluntary) bondholders may exchange their bonds for new bonds bearing a lower rate of interest than the old ones, but in such a case the loss in interest is compensated for by the delivery to the holders of the bonds who make the exchange of a bonus in (a gift of) stock or in some other security, such as income bonds (income bonds receive interest

only if earned). Or, the bondholders may exchange their bonds for a smaller amount of new bonds, receiving stock or income bonds as compensation for the surrender of a portion of their holdings.

Again, cumulative stock may be exchanged for a larger amount of non-cumulative stock. Or, the exchange may be on even terms, with compensation for the surrender of the cumulative right on the stock.

The compensation usually takes the form of a bonus of some kind as, for instance, income bonds.

Financial readjustments without foreclosure to enforce them are not numerous.

Bonds and stocks, the holders of which agree to accept the terms of a readjustment plan, are termed assenting bonds and stock; bonds and stock the holders of which do not accept the terms of a readjustment plan are termed non-assenting or unassenting bonds and stock.

REGISTERED BOND. A registered bond is one registered in the name of the owner, and the bond itself bears his name. Such a bond is transferable the same as a stock certificate. The bond itself contains a form for assignment and transfer. When a registered bond is trans-

ferred a new bond is issued for the old one just as when a stock certificate is transferred a new certificate is issued for the old one.

The interest on a registered bond is paid by check, which is sent by mail to the postoffice address of the owner of the bond. Due notice of change of address should, therefore, be given. The old address should be given as well as the new one.

There are some registered coupon bonds, but such issues are not numerous.

REGISTERED COUPON BOND. A bond the principal of which is payable only to the one whose name is inscribed on it, and in whose name also the bond is registered (entered on the books of the company issuing it), while the coupons calling for the payment of the interest as it becomes due, are payable to the bearer.

REHYPOTHECATION. The hypothecation again of collateral already hypothecated. Rehypothecation, except by consent of the owner of the collateral, is illegal.

RELEASED INDORSED BOND. Any indorsement on a coupon bond stating that it has been deposited as security for bank circulation (bank notes) or for insurance require-

ment may be released by an acknowledgment of the release before a notary public; it will then be a delivery in accordance with New York Stock Exchange rules as a released indorsed bond.

REORGANIZATION. When the financial reconstruction or rehabilitation of a railroad or other corporation is voluntary—that is, by concurrence of the security-holders—the term readjustment applies. When the financial reconstruction is compulsory—that is, when it is effected by a receivership and foreclosure—the term reorganization applies. Most reconstructions are compulsory; they seldom can be effected except by legal process following insolvency.

The method of reorganization is ordinarily as follows: After default has been made in interest on bonds, say the first mortgage bonds, a receiver is appointed, after which a plan of reorganization is formulated. Provision usually is made in the plan whereby the first mortgage bonds, together with the accumulated unpaid interest, are to be paid in full. Such holders as may desire to do so take for their bonds, bonds of a newly formed company, with perhaps stock for the unpaid interest. Such holders as prefer cash for their

bonds and unpaid interest are paid in cash. It sometimes is the case that the holders of bonds who take bonds of the new company for their old bonds receive the unpaid interest in cash.

The money to pay those bondholders who prefer cash (and to pay unpaid interest if it is to be paid in cash) and to provide other needed funds and working capital, is raised by levying an assessment on the stock (on the holders of the stock at so much per share). Then an order for sale of the property under foreclosure is obtained from the court (the property being under the control of the court after the appointment by it of a receiver).

The sale wipes out the bonds and the stock. The proceeds of the sale, however, must go toward the liquidation of the mortgage debt. The property (generally) is bid in by a committee of the bondholders for the benefit of the bondholders. The reorganization plan (generally) is primarily in the interest of the bondholders and only secondarily in the interest of the stockholders.

REPUDIATION. The rejection, in whole or in part, of a contract, debt or obligation. The term applies in particular to the rejection

or mandatory scaling of its debt by a government.

The repudiation, as applied to the rejection of a debt by a state, was first used in 1841 when the state of Mississippi repudiated bonds issued to railroad companies which failed to comply with conditions on which they received them.

RUPEE PAPER. Securities of the government of India, interest and principal being payable in rupees in India and by bills of exchange on Calcutta in England.

SCRIP. Usually the term is applied to a certificate for a fraction of a share of stock and usually, also, scrip is convertible into shares when presented in amounts equal to the face value of a full share.

It has no voting power or dividend rights until converted into full shares of stock, although sometimes interest is paid on it.

Scrip was also the name given to United States paper currency of denomination less than $1, which is no longer issued; such money was commonly called "shin plasters."

In Great Britain it is the practice to issue scrip to represent instalments paid on subscriptions for stock; when all instalments are

paid the scrip is exchanged for stock certificates.

SCRIP DIVIDEND. One payable in scrip. or in other words, a due bill, sometimes bearing interest at the legal rate and usually convertible into stock, but having no voting power and entitled to no dividend until so converted.

SECOND MORTGAGE. The mortgage that is a lien after the first mortgage.

SECURITIES COMPANY. Same as holding company; a company which owns the securities of other companies and depends for its income upon the interest and dividends yielded by these securities. It usually issues bonds as well as stock itself. Its bonds are collateral trust bonds, being secured by bonds or stocks of other companies owned by it. A securities company is not necessarily a controlling company—it is not necessary that it should possess a majority of the stocks of the companies whose securities are included in its assets.

SELLER'S OPTION. A seller's option is, in effect, a put. In stocks sold on seller's option the seller may, when the option is for more

than three days, put (deliver) the stock on any day within the specified time on one day's notice to the buyer. In a contract for four or more days the buyer, unless the contract is flat (without interest), pays to the seller interest at the legal rate on the price of the stock up to the day of delivery. The amount of a dividend becoming due during the pendency of a contract is payable by the seller to the buyer.

No contract on seller's (or buyer's) option for less than 4 days or which extends beyond 60 days can be entered into on the New York Stock Exchange.

SELLING SHORT. In Wall Street this consists in selling stocks not owned, and borrowing them for immediate delivery. When finally bought in (covered) the borrowed stocks are returned. If, in the interval between selling and buying, the stocks have declined, the trade is profitable; if there has been an advance it is unprofitable. See Short.

SETTLEMENT, The. The fortnightly settlement on the London Stock Exchange, which formerly lasted for three consecutive days, now takes four days, as the "carry-over" in mining shares begins the day before the ordinary "carry-over." According to the London cus-

tom, payments and deliveries in stock transactions are made only twice a month instead of every day as is the case in New York.

SHORT. One who has sold a stock which he does not possess and has borrowed the stock for delivery to the buyer, is short of that stock. One who is short of several stocks is said to be short of the market. One who is short is a bear.

The object of selling short is, of course, to repurchase subsequently at a lower figure. The rules of the New York Stock Exchange enforce the completion of each transaction entered into "regular way" on the day following the transaction. Hence, the speculator who has sold short is forced to borrow the stock he has sold, but does not own and make actual delivery of it next day to the purchaser. This he accomplishes through his broker by paying the market value of the stock to the one from whom he borrowed it and then returning the borrowed stock to the lender when he has covered, or in other words, bought back the stock.

When a speculator is short of stock (has sold stock which he did not own) on which a dividend becomes due, he has to pay the amount of the dividend to the person from

whom he borrowed the stock, to make delivery to the one to whom he sold the stock.

In speculation in grain, cotton, coffee and other commodities, contracts to receive and deliver the property are entered into the same as in stocks.

SINKING FUND. A fund to which are contributed amounts of money at specified times for the redemption of a debt. For instance, when a sinking fund is established for the redemption of an issue of bonds a certain amount of money is added to the fund each year (or at other stated intervals) until finally the fund amounts to enough to redeem (pay off) the bonds.

Sometimes the money paid into a sinking fund is invested in other bonds (or other securities), the interest payments (or dividends) received from which help to swell the sinking fund. It is not infrequently the case that a sinking fund is established to redeem drawn bonds.

SINKING FUND BOND. A bond, provision of the payment of the principal of which, is made by the creation of a sinking fund. See Sinking Fund.

SPECIAL AID BOND. One of an issue in aid of some enterprise, as a railroad or manufacturing concern, which is expected to benefit the nation, state or municipality which issues the bonds.

SPECIAL ASSESSMENT BOND. One of an issue of municipal bonds payable, principal and interest, from special taxes levied upon particular property, for an improvement from which this property derives special benefit.

SPREAD. A spread is like a straddle, a double privilege, a put and a call combined. If the stock goes below the price named in the put end (or part), plus the cost of the spread, the holder of the spread profits; so, also if the stock goes above the price named in the call end (or part), plus the cost of the call, the holder of the call profits.

Illustration: A spread on 100 shares may be bought on which the stock may be called (called for) at 102½, or put (delivered) at 97½. Say, 2½% ($250) is paid for the spread. Then the stock must go above 105 or below 95 before there is a profit in the spread.

If a dividend becomes due on a stock during the pendency of a spread on it the dividend goes to the holder of the spread if he elects to

receive and pay for the stock, but it goes to the seller of the spread if the stock is put (delivered) to him. A dividend always goes with the stock.

STOCK POWER. The name given to the irrevocable power of attorney used in assigning or transferring title to a certificate of stock.

STOP ORDER. When an order is given to a broker for the purchase of a stock, for instance, at 100 with instructions to "stop it" at 98, it means that the stock is to be sold if it declines to 98. On the other hand, if a stock is sold short at 100 with instructions to "stop it" at 102, it is to be bought back if it advances to 102. A stop order is employed principally to limit loss in speculation; in such a case it is specifically designated as a stop-loss order.

STRADDLE. A straddle is like a spread, a double privilege, a put and a call combined, but only one price is named in it. The stock may be called (called for) or put (delivered) at this price. The stock must go up or down more than the amount paid for the straddle before there is a profit in it. Illustration: A stock is selling at 100 and a straddle on 100 shares is bought at this price, for which 5% ($500) is

paid. The stock, therefore, must go above 105 or below 95 before there is a profit to the purchaser of a straddle.

If a dividend becomes due on a stock during the pendency of a straddle on it, the dividend goes to the holder of the straddle if he elects to receive and pay for the stock, but it goes to the seller of the straddle if the stock is put (delivered) to him.

SYNDICATE. As a financial term syndicate means several bankers or capitalists who join together to carry out or to insure the carrying out of some plan or scheme which involves a large amount of money.

The commonest form of syndicate is an underwriting syndicate. For instance, the capital stock of a company (or a certain amount of it) is to be offered for public subscription at, say, 100 (par). An underwriting syndicate is organized and it underwrites the entire issue at 90. It, in effect, buys the whole issue at 90. The stock taken (subscribed for) by the public practically is sold for account of the syndicate, for it receives the difference of 10% between the price at which the stock is sold to the public (100) and the price at which it is underwritten by the underwriting syndicate (90). The syndicate is obliged to take

the stock not sold to (subscribed for by) the public, but it has to pay only 90 for it as against 100 which the public has to pay. If all the stock is taken by the public (as is often the case) the underwriting syndicate has not to take and pay for any stock, but simply receives and divides among its members (in proportion to their shares in the syndicate) the amount represented by the difference of 10% between the price of the stock to the public and the price to the underwriting syndicate. If some of the stock is not taken by the public it may be apportioned among the members of the syndicate, but usually it is sold (in the open market or otherwise) for the syndicate.

TIME LOAN. Wall Street designation for money borrowed for a specified period, usually not less than 30 days nor more than six months, the repayment of which is secured by the deposit of collateral (stocks and bonds) with the lender.

TON MILE COST. A railroad term, meaning the average cost per mile of carrying each ton of freight.

TON MILES. A railroad term; the whole number of miles the whole number of tons was

hauled. The result attained by adding together the number of miles each ton was hauled and then dividing by the number of tons shows the average number of miles each ton was hauled (transported). Ton mileage means the same as ton miles.

TRAIN MILES. A railroad term; the number of miles traversed by a particular train; or, the number of miles collectively traversed by all trains of a railroad. The result attained by adding together the number of miles traversed by all trains on a railroad and dividing by the number of trains shows the average number of miles traversed by each train. Train mileage means the same as train miles.

TRANSFER. The act of placing a certificate of stock or a registered bond in the name of a new owner. The new owner of a stock which is in receipt of dividends or of a registered bond upon which interest is paid, should have it transferred into his name before the closing of the books for a dividend or for interest for the check for the dividend, or interest will be sent to the person in whose name the stock or bond stands.

TRUSTEE STOCK. A stock of the highest

class in which trustees are authorized by law to invest.

TWO DOLLAR BROKER. A member of the New York Stock Exchange who executes orders for other members for $2 per hundred shares, and whose participation in transactions ends with the simple act of buying or selling.

UNASSENTED STOCK OR BONDS. Stock or bonds which the owners refuse to deposit under an agreement by which their status will be changed. For additional information see Readjustment.

UNDERLYING MORTGAGE. A mortgage anterior and prior in claim to another mortgage, as, for instance, when speaking of a second mortgage the first mortgage is the underlying mortgage.

UNDERWRITER. One who insures; a member of an underwriting syndicate. For additional information see Syndicate.

UNIFIED BONDS. Another name for consolidated bonds or consols; an issue of bonds created to unify or consolidate or refund (take up and replace) two or more previous issues.

UNLISTED STOCKS. This is the common designation for stocks which, in official terms, have been "admitted to quotation" in the "unlisted department" of the New York Stock Exchange. Admitted to quotation means admitted to dealings.

VALUE BILL (of exchange). A draft (bill of exchange) drawn against a consignment of property. For instance, if A in New York ships goods to B in London and draws on B for the value of the goods, attaching the bill of lading, insurance policy, etc., to the draft (bill of exchange), the bill is a value bill.

Again, if a banker in New York sells securities to a banker in London and draws on the bank in London for the value of the securities, attaching the securities to the draft (bill of exchange), the bill is a value bill.

VOTING TRUST. This is created by placing the stock of a company, either all or a majority, in a trust, usually for a specified period, for voting purposes. Thus, the control of the company is locked up in the hands of trustees. Receipts for the stock are issued, and these may be dealt in and receive dividends the same as the stock itself, but they have no voting power.

VOTING TRUST CERTIFICATE. When the stock of a company is lodged in a voting trust so that the voting power of the stock is confined to the trustees of the voting trust (commonly designated voting trustees), certificates or receipts for it, called voting trust certificates, are issued in place of and represent ownership of the stock. The certificates are dealt in and transferred the same as the stock, and when the voting trust terminates or is dissolved the certificates are exchanged for the stock itself.

If dividends are declared on the stock while the voting trust is in force, they are paid to the holders of the voting trust certificates. The certificates, in brief, are in all respects the equivalent of the stock, with the exception that they do not possess voting power.

WASHING. A Wall Street colloquialism used to describe the operation of simultaneously buying and selling the same stock for the purpose of making quotations, and generally for the purpose of inducing speculation in the stock by imparting apparent activity to it. The transaction is fictitious and so is the price.

WATERED STOCK. A colloquialism used when the capital stock of a company is in-

creased in amount without a corresponding increase in assets. When a stock is declared the original stock is watered to that extent, unless the new stock represents added property or value in some form.

WHEN ISSUED. A term employed when dealing in a stock not yet issued. When a stock is sold "w. i." it is deliverable when, as and if issued. This is a stock future corresponding to a grain, cotton or coffee future, except that it is indefinite as to time.

X-D. Ex-dividend, that is, without the dividend. If a stock upon which a dividend has been declared is sold and the sale is not to include the amount of the dividend, the stock is sold ex-dividend.

X-I. Ex-interest; that is, without interest, or in other words, interest not included.

PART II.

Stocks and Bonds

The corporations, large and small, which in the past few years have so extensively succeeded individual effort and the old form of partnership in conducting the business of the world obtain the capital for their foundation and development chiefly by the sale of stocks and bonds, which are sold largely to persons not directly connected with their enterprises. By means of these instruments the accumulated savings of a vast number of persons are turned into a common channel and made to do work of which, if not thus united, they would be incapable. The issuance of these securities makes it possible for the thrifty individual to have a share in great undertakings and to profit by them if they are successful. The distinction between stocks and bonds is clear and easily drawn. Bonds represent a lien on property or earnings. They are really certificates of indebtedness of the corporation which issues them. The bondholder is a creditor of the corporation; in other words, he has loaned it

money and has taken a certificate of indebtedness which is usually protected by a mortgage upon certain property, just as he might have loaned money to an individual and taken a mortgage on that individual's house, farm or chattels. If the interest on the bond is not paid, or the principal of the loan is not returned at the end of the time for which it has been loaned, the bondholder may foreclose upon the property against which his bond is a lien, just as he might foreclose upon a farm or house upon which he had a mortgage, the interest or principal of which should be defaulted. Stocks represent ownership in property or business. Every shareholder is a partial owner of the property and business of the company whose shares he has bought. If the business is profitable he receives his share of the profits in the shape of dividends, if it is unprofitable he will receive no dividends, if it becomes insolvent he cannot foreclose on anything; he may share only in whatever proceeds of a forced sale may remain after the bondholders have received the principal of their bonds. Stocks, therefore, are ordinarily less safe as investments than bonds. On the other hand, stockholders, being owners, may participate in the profits of the corporation to an extent

limited only by the profitableness of the business, while the bondholder will receive only a fixed rate of return upon the money he has loaned to the corporation. Stocks appeal to the more speculatively inclined investor, bonds to the one who wants to keep his principal safe and is satisfied with a moderate income from it. To show the difference in possibilities of bonds and stocks we may instance the case of the American Tobacco Company. Its bonds paid interest limited to six per cent on one issue and four per cent on another. The common stock in 1911 paid 40 per cent in dividends. That is, the corporation paid to its bondholders, or creditors, the interest stipulated in the bond, while the owners of the corporation divided among themselves profits amounting to 40 per cent of the total par, or face, value of the common stock issue. The bonds sold on the market at about the price at which they were issued, and the stock at over $500 a share, the par value being $100. Against this take the bonds and stocks of the Missouri Pacific Railway System. The consolidated first mortgage bonds of this system pay six per cent interest and sell at above their face value, while the stock pays no dividends at all and in 1911 sold as low as $35 a share. Bonds, it will be seen,

are more likely to remain stable in market value and to continue to pay the expected return, while stocks contain large capabilities of profit and loss, both in principal and in return thereon. This applies particularly to common stocks.

The preferred stocks of such corporations as issue them (preferred in that they must receive dividends before the common stock and, in case of dissolution of the corporation, must receive their share of assets before the common stock) have in many instances become so stable, through the large earning power of the issuing corporations, that they bear a close resemblance to bonds, except that they are not protected by a mortgage on property. The rate of dividends on preferred stock is generally fixed, as is the interest on bonds, and the preferred stock does not usually possess voting power, which the common does. Common stock more nearly represents ownership; its holders control the property as long as the bond obligations are met; the preferred stockholders ordinarily have nothing to say about the management of the property, nor does the bondholder, as long as his interest is paid and payment of the principal at maturity is not refused. Cumulative preferred stock is stock on which dividends,

omitted in bad times, must be made up before any dividends can be paid on common stock. Many corporations, the Pennsylvania and New York Central railroads, for instance, issue only one kind of stock, which bears no qualifying appellation, such as common or preferred. "Guaranteed stocks" are generally those of a corporation, control of which has been acquired by another corporation which pledges its credit to pay a stipulated dividend upon the stock of the first corporation, whether the property of the first corporation continues to earn the dividend or not. Guaranteed stocks, provided the guarantor is good, rank very high as investments, as they have not only the earning power of the issuing corporation behind them, but also the pledge that a second corporation will make up any deficiency if the earnings of the first corporation decline. Other varieties of stocks are issued in other countries than the United States, but those named above are the only types ordinarily met with in this country.

As compared with stocks, the types and classes of bonds which are offered to the investor are very numerous. People interested in securities are constantly making inquiry as to the nature of this and that bond, asking what is a Convertible bond or a Debenture or

a Collateral Trust bond, and as to the elements of security they must consider in purchasing these investment instruments. A comprehensive basis for classification and description of bonds is generally begun by considering the character of the corporations issuing them. These corporations may be broadly considered under the following heads: Government, Municipal, Railroad, Industrial, Public Service and Miscellaneous. Under the first of these general heads State, Colonial and Territorial bonds may be considered in addition to those of the Federal Government; under the second all bonds of cities, townships, counties, school districts; under the third the great amounts of securities emanating from the steam railroads; the fourth including the securities of manufacturing concerns; and in the general division of Public Service corporations are all companies providing public utilities — gas, electric, telephone, street railway companies.

A fundamental distinction between Government and Municipal bonds and those of all other corporations is in the matter of security. Generally speaking, all public obligations are without any specific property pledged for their safety, while nearly all others stand upon some mortgage of property. And further, in case of

default on public bonds, there is no redress for the aggrieved bondholder, as suit against the Government without its consent is constitutionally prohibited. There is, however, the Court of Claims, which may be appealed to for relief.

Government and Municipal securities admit of little general classification other than the statements above — that they comprise a great, indeed the greater part of all unsecured bonds. This could be developed further by a consideration of the purposes of their issue, yet were this done but one fact would be prominent — that all are issued for some distinctly public service, such as the construction of a water works, the building of roads, etc.

It is obvious, therefore, that the numerous types of bonds which diversify the investment field must be sought in those corporations produced and developed by private capital, and of a strictly private or quasi-public nature. Because of the problematical degree of security under any other circumstances, there being no pledge of public faith and credit, we have the great body of mortgage secured bonds, that is, those bonds which nominally have a lien on the physical assets of the property in the event of default of the payment of interest. Within the limits of a chapter such as this it is possible to

make barely more than a definition of any particular type. To examine into the merits or weaknesses of all specific bonds and discuss them minutely would involve analysis and comparison of much greater breadth.

By reason of the insistence of many investors that their bonds be of *First* Mortgage it may be said that the importance of the word *First* is dependent upon the circumstances. A bond may be *first* in fact, as when it gives an absolutely prior lien; it may be so only in a relative sense, in that it indicates the order in which the bond was put out by the issuing company; or, the use of the term *First* in the name of a bond, undesirable and loose though it be in such instances, may be upon the slight ground that the mortgage is indeed first on some part of the property while on other parts it may have but a third or fourth claim. It is therefore obvious that the mere presence of this term in a title does not necessarily make the bond an absolutely prior lien. It has been estimated that 95 per cent in number and 95 per cent in value of steam railroad "firsts" are first liens in name only. It is perhaps proper to state that the efforts toward simplification of the debt of many corporations in general and the consolidation going on is tending toward fewer issues

where the terms of a name do not more precisely indicate the position of the bond. These same conditions are responsible for the passing of many junior issues known as *Second, Third,* or *Fourth.* A few years past a number of such issues were upon the market and more or less of them were put out, but since that time the tendency has been in a different direction. That tendency has been to take every opportunity to unify a debt. Rather than follow an old First mortgage by a smaller Second and that by, perhaps, a Third, the practice is now to make broad mortgages, and to this end there is the *General* Mortgage, the *Consolidated* Mortgage, and in a few instances the *Unified* Mortgage. The term *Blanket* is more of market nomenclature than otherwise and may indicate any comprehensive mortgage. The conditions surrounding each of these representatives of a type are infinitely varied. As a rule they all take up or refund — it might be stated, pay off — underlying issues besides performing their function of raising new funds. That is to say, on the railways whence come practically all of these general mortgages a number of smaller issues are outstanding, due to the fact that most of our great systems are but the joining of a number

of small lines. A company needs funds. Instead of issuing a comparatively small mortgage and a little later, under further need, another, making them respectively junior, a comprehensive mortgage is put upon the property, with provisions in the indenture that when the underlying or prior lien bonds fall due they may be refunded by bonds of the new and larger issue. If the broad mortgage be the first that covers the whole property, in time it will become a real first mortgage, and then enjoy a senior position over all succeeding bond issues. In a word, such mortgages generally cover the entire properties of a system, and their relative position is established by the circumstances present. The small railroad lines that have been merged into large systems have usually had upon each of them at least one mortgage. In the financial structure of the larger organization such bonds are known as *Divisional.* Unless in the taking over of the small lines into their respective systems the status of these bonds is changed by some arbitrary arrangement, they remain a prior lien on their section of the property.

It will be noted that the above are classified with reference to the character of security given and priority of the lien. The further

fact should be noted that the character of the security is a lien on pledged real property. There is another type of bonds broadly known as the Collateral Trust bond, quite a number of which have been issued during the past twenty-five years, which are specifically secured by their lien on other bonds or stocks or by both together. The character of the security here is a lien on personal property. The stocks and bonds to secure such issues are usually the capitalization in whole or in part of auxiliary or subsidiary companies. The degree of safety enjoyed by Collateral Trust bonds is a problematical factor, and one that can only be determined by going back to an analysis of the underlying collateral.

Bonds of private corporations without any tangible security whatever, personal or real, are few. The *Debenture* bond is the representative security of this kind in the market. The characteristic of this type being as stated (no mortgage security), it follows naturally that the corporation which issues them must enjoy a large degree of public confidence in its ability to meet its obligations and in its integrity generally. The most recent example of this type of bond is the issue of debentures put out by the Michigan Central Railway some few

years past. The character of the instrument, for it is hardly more than a formal note, — a promise to pay, — indicates that only companies of the standing of that railway company can be successful in its flotation. Other prominent examples are those of the New York, New Haven & Hartford Railroad, New York Central, and the Lake Shore Railway. Though these bonds lack a lien on specific property there is generally a provision whereby a trustee is appointed under an indenture to certify that there has been no over-issue, and to look after the rights of the bondholders in case of default.

Another prominent type that is virtually a debenture is the *Convertible* bond. As the term implies, it may be converted (exchanged) into something — generally the capital stock of the company issuing it. It holds up certain speculative possibilities before the purchaser, in that the stock which he may obtain may appreciate in market quotation to such a degree that by taking up the stock a substantial profit may be realized. The conversion price is, of course, definitely fixed and the holder of the bonds has what amounts to a call on the stock. The issue of such bonds therefore could prove profitable to the investor and beneficial

to the company, in that the company obtains additional capital and when conversion is accomplished its fixed charges are reduced.

Income bonds are practically equivalent to preferred stock. As a matter of fact they are not bonds at all so far as the interest payments are concerned. They are contingent in respect to their interest return, which may be either cumulative or non-cumulative, and are dependent on the existence of surplus net earnings above all fixed charges, on which earnings they have a claim preferred ahead of dividends. Since the era of reorganization of many railroads from 1890 to about 1895 few of this type of bond have been issued. Then they were given as compensation for some sacrifice security holders were compelled to make, although in several instances they were the outgrowth of poor credit of some Southern and Western roads. They generally sell at a low quotation, and while the principal is nominally protected by a mortgage on the property the lien is generally junior to all others at the time of the issue.

A small but interesting type of security very generally regarded as an excellent one is the *Terminal* bond. The name implies its nature. It is put out in connection with the acquisition,

improvement, maintenance, etc., of the station facilities of one or more railroads, especially in larger cities. It may be the obligation of a separate terminal company leasing its facilities to the entering roads, or may be the joint and several obligation of the roads themselves. It may represent a mortgage on terminal property used by the railroads and without guarantee; a mortgage on terminal property not owned but used by one or more railroads and guaranteed by tenants; a mortgage secured on terminals owned by railroad companies and either issued directly by the railroads or guaranteed by the railroads; or a mortgage partly secured on terminals, issued by the railroads and generally covering mileage and other property. The relative position of such bonds is obvious when it is considered how the value of urban real estate is growing by leaps and bounds, as for instance the Terminal Association property of St. Louis and that of the Central Railroad of New Jersey in Jersey City.

An *Equipment* bond, as the name implies, is one issued to provide funds with which to pay for new rolling stock — cars and locomotives. The issues are variously described as car trust certificates, equipment bonds or

equipment notes. They conform in general to one of two standard forms. The " Conditional Sale " plan is about as follows: At the request of the railroad company and in accordance with specifications furnished by it, the trustee, or some other intermediary, contracts with the builders for the purchase of equipment, ten or fifteen per cent of which is paid in cash by the railroad and the balance is represented by the bonds. They are an obligation of the railroad and are secured by a first lien on the entire equipment, the title of which remains with the trustee for the benefit of the bondholders until the last bond has been paid. Upon final payment the trustees give title to the railroad. The railroad is compelled to keep the equipment in good order during the life of the bonds. The bonds are paid off semi-annually or annually, and the last of them fall due about ten years from date. Another plan is sometimes used, and this plan is designated by bond houses as the "Philadelphia Plan," whereby the equipment is purchased by an individual or corporation which leases the equipment to the railroad at a rental equivalent to the interest and deferred payments of the bonds. The lease is assigned to a trust company as trustee which issues its certificates, which are

guaranteed by the railroad. The lease runs until the last bond is paid, when the title passes to the railroad.

We have thus far considered distinctive types and have about covered the field from that point of view. There may be a sub-classification applied to many of these, according to the terms of payment and retirement of issues, according to the purpose of issue, the character of the payer, etc. Bonds with a *Sinking Fund* provision are those for the security and payment of which a fund is created by contract which cumulates under the protection of the trustee. Numerous variations of sinking funds are found according to the class of corporation establishing same, and according to many other circumstances. By some the fund retires the bonds periodically; with others it is invested to yield sufficient to pay off the debt at maturity. Securities with a sinking fund provision that pays off some part or all of the issue before the maturity date are known as being *redeemable.* A few irredeemable bonds are in existence, but so few as to be negligible if we accept the bonds of some governments, such as British Consols, French Rentes, and a few others which are perpetual in that they are never paid off.

The term *Joint* applied to a bond indicates a liability of two or more companies. A *Guaranteed* issue may be so secured as to principal or interest or both principal and interest. Many such bonds are the underlying issues of a subsidiary company guaranteed by a larger or parent system. The guarantee is written and attached to the instrument itself, or evidenced by a separate writing. *Endorsed* bonds are similar, the contract of security being the written name of the guarantor upon the back of the instrument. The designations of *Improvement* or *Extension* or *Construction* or *Refunding* are clearly indicative of the particular functions of the respective issues, while *Participating* and *Profit Sharing* features are but attractive innovations going along with a very few issues whereby holders thereof enjoy certain benefits under special circumstances. As for instance if the bonds were of a Collateral Trust issue any extra dividends on the underlying stocks might be distributed among the holders.

Stocks are put in the hands of the public mainly through the numerous stock exchanges, where they are "listed" and may be bought and sold like merchandise at a fair, the only mystery about the process being the methods

by which the public is induced to take interest in a new stock, which are described in another book of the Investor's Library, " Stock Prices," and in any event pertain more to a Speculator's than an Investor's Primer. The distribution of bonds, however, is well-nigh an exact science and deserves to be treated in this volume in some detail.

Investors may get their bonds in two general ways: by buying on the Exchange or directly from the banking houses, although an amount twenty-five times greater in the aggregate is sold in the latter way. The larger and stronger of these private banking houses, associated with several of the largest national banks, form one class of dealers who may be considered as wholesalers, buying and selling annually anywhere from $100,000,000 to $300,000,000 each. They are the class of great underwriters. These underwriters act as the fiscal agents of large groups of railway corporations, and when any company of the group has an issue of securities to be put upon the market, the banking house generally has the transaction completely in its charge. Railroad issues constitute the greater part of the underwriting by these houses. But they often bid for entire issues of municipal bonds, the bonds of a state

or even large blocks of Government securities, although the nature of bids for these public bonds is different from their transactions with the railways. They enjoy peculiarly close relations with these latter corporations, while in the case of public bonds numerous bids by others are usually made. The business of these houses is so thoroughly established, they can command so much capital, borrow so heavily, and make such substantial profits that they do not hesitate to purchase blocks of bonds of great amounts.

The retail dealers are more numerous. Some of these are banking houses of importance and strength and selling from $50,000,000 to $150,000,000 worth of bonds in a year. Some of them deal exclusively in municipal bonds, others in steam railroad securities, and again others in electric railway or industrial issues. It is through these firms largely that the great investing public of the country is reached. Their organization is highly developed. One of the most valued assets of a house is the list of customers' names. A million dollars would not purchase the lists of some houses. In evidence of this fact an offer of $25,000 was made not long ago by a house for the return of a duplicate copy of

its list, which had been misappropriated by a former salesman.

There are in this country several hundred thousand people of independent fortunes; and it is these that the retail bond dealers seek to reach. Not only do these houses advertise extensively and have voluminous correspondence, but many of them have a force of salesmen traveling over the country. The selling of bonds has become much like the selling of other wares, groceries, books, etc. Within the house elaborate systems are developed. Information of many securities is catalogued and indexed, and systems of various kinds are used for following investors and facilitating the work. It is the aim to have complete knowledge of securities for convenient reference. Because of the high reputation that these bond houses have established they enjoy the absolute confidence of hundreds of investors, many of whom have not the time nor facilities to study the investment value of a security; and indeed if they had, could not arrive at any sound conclusion because of a limited understanding of the subject. The fact is that fully seventy-five per cent of the customers of these bond houses purchase securities largely on the rec-

ommendation of the house, because of its character. The organization of all bond houses is similar. In a general way it comprises three departments, each with its specific function, which may be understood from its name. These three are known as the Buying, Selling and Financial Departments. To the first is delegated the duties of analysis of securities offered the house. Critical points must be investigated, whether railway, industrial or municipal bonds are in question. Upon the Selling Department, obviously, devolves the responsibility of marketing the issue. It must know almost immediately about when or where the securities may be disposed of. The training of the managers of these departments enables them to form quick judgments on these points. It is in this department that the selling literature so broadly advertised and distributed is prepared. The third and financial department assumes all duties not specially delegated elsewhere. Its operations are broad in scope and involve the relations of the house with its lenders, who are the banks, and also some private individuals. Large amounts of capital are necessary, and besides, other considerable amounts of money are borrowed.

When the credit of the house is of a high type it is comparatively easy to procure vast amounts of money by giving as collateral for same the bonds purchased. The bonds, of course, drawing interest practically always, return more than the cost of the borrowed money in the market; and from this source alone arises substantial profits when operations are conducted judiciously. The nature of its collateral enables a bond house to borrow money to greater advantage than under other circumstances. Numbers of these bond houses, in addition to establishing intimate connections with financial institutions at home, develop relations with foreign markets through some foreign bank. In this way they are enabled to borrow to advantage in a foreign market if money rates at that point are lower than at home. In addition to these purely financial functions of this department, it has the administration of the house in its charge. There is, of course, the greatest possible cooperation between all departments. An issue of bonds is not bought until the Selling and Financial Departments have passed judgment as to their ability to sell and to borrow upon. That a bond that is bought with discrimination and at a good price is practically sold is the judgment of many houses.

The distribution of securities, whether by large wholesalers or those retailers almost as strong, is often accomplished through syndicate operations. It will be noticed that in the case of many large issues that are advertised, several firms, even of the strongest type, are indicated as offering the bonds. Any one of these houses could, if it chose, care for the whole amount, yet it is associated with two or more others. Together they have underwritten the issue as a syndicate of bankers. There is a joint participation in producing the capital represented by the new issue and joint action in distributing the new securities in the market. Many variations of the practice of underwriting are found. A large and strong banking house may take from a railroad for its own account the entire issue, and so far as the corporation is concerned it has only to look to the house for its funds. Yet the house may not wish to distribute so large a block of the specific securities among its own clientele and will thus associate other houses in the operation. The governing motive, however, in syndicate operations is the minimizing of risk — not from any fear as to the soundness of the securities, but from the possibility of not being able to dispose of the bonds as readily as anticipated.

Financial underwriting is a type of insurance which involves risk. The insurance companies assume risks of fire, death, etc., while the banker or group of bankers who underwrite an issue of bonds accept the risk of a favorable market. In the case of some large issues of bonds the original bankers or members of the syndicate are known publicly, for the newspaper advertisement setting forth particulars of the issue is generally signed jointly by the banking firms. It is very often the custom for each of the participating bankers to form a second syndicate to further minimize the risk, which is in effect a distribution so far as they are concerned. Individuals of wealth and those who command capital, trust companies, banks and smaller bond dealers may be the members of this sub-syndicate as we may call it; and upon them in turn is the task of the real distribution among final investors who take the bonds, locking them up for the interest return until maturity date. As we have stated, there is no stereotyped method as to the formation, conduct and personnel of these syndicates. In the case of several large houses underwriting an issue, it amounts to little else than a division of the issue among them, while a sub-syndicate, in the sense here

given that term, is generally conducted in about the following manner: The firm seeking to form the syndicate approaches such institutions and individuals as are closely associated with it. If the project is likely to yield considerable profit the group would not be made too broad. A very limited circle of participants might be able to conduct operations without any formal document of agreement in respect to the terms and conditions under which the issue was to be disposed of, but it is the prevailing custom to have a written record of the conditions and terms, this record being known as the syndicate agreement. In this agreement are provided for such matters as the price at which members shall receive their bonds, the details of management, the question of the length of time the syndicate shall remain open, and other similar matters. A member of the syndicate may endeavor to dispose of his allotment or have the allotment withdrawn from sale for a specified time, or until the syndicate is closed, in which event the price to this subscriber would be slightly under that made to others of the syndicate. After the stipulated time had expired, his bonds could then be put upon the market; but their absence from the market while other

members were selling, enhancing in a measure the ability of the others to distribute their holdings, is the reason for the concession in price to the member withdrawing his allotment.

The management of the syndicate is generally the work of the bankers. All books of record are kept by the house and the details of distribution are managed by it. Although the bankers use their every facility to dispose of the securities, it is expected that members of the syndicate shall also labor to this end. The conclusion of operations may come shortly after the issue is put upon the market, if the market absorbs it readily, or some bonds may remain unsold for years. When the syndicate is closed any unsold portion is prorated among the members, which they must take according to the terms of the agreement. This is a description of the process in simple form. It is equivalent to an agreement with the promissors upon certain bonds, or the management of a company, through the bankers, to take at a previously fixed value all securities of a given issue to which the public generally or investors at large may not care to subscribe.

The profits of syndicates are varied, depend-

ing upon many factors. In the first place the chance of a substantial profit is the moving consideration in modern financial underwriting. The size of the issue, the type of the bonds, the time of the market, with other conditions, influence the profits. For the assumption of risks and the exertion of their influence the bankers demand and receive a substantial reward. It has come to be recognized that commissions must be paid to bankers. In consideration of this the bankers loan their credit and reputation by placing the bonds directly or indirectly with the public. The price at which a corporation sells its bonds to bankers is, of course, a matter between the house and the company. They may get a five-point profit, although on high grade securities this is not usual. If the banker makes two points, and the syndicate as much, it would be considered good. A strong company and a strong banking house means fair commissions; a weak company with the same house would produce more profit.

One variation of underwriting is to undertake the disposition of a block of bonds without actually purchasing them, and to pay over to the company the proceeds of only those that are sold. The purchase price, of course, is

stipulated, and the bond house may obtain profits varying with the success of the salesmen or the locality where sold.

From the facts stated it may be readily appreciated that the reputation of a banking house is to be most jealously guarded as the foundation for a long and successful existence. Many of the large and strong houses make it a boast that no investor has lost money or been led into poorly judged investments on their recommendation. And a further boast with some is that no issue ever sold through them has defaulted on a single coupon. Under such conditions it does not excite wonder that such great amounts of securities are floated with such comparative ease. The facilities which corporations enjoy in raising new capital and the sense of security that the investor has by relying upon these strong banking institutions are full justification for their profits.